HM TREASURY

The Magenta Book

Guidance for evaluation

April 2011

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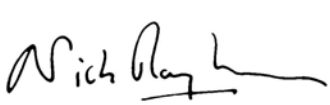
Foreword

The Government is committed to improving central and local government efficiency and effectiveness, and in times of constrained public finances it is even more important to ensure that public funds are spent on activities that provide the greatest possible economic and social return. This requires that policy is based on reliable and robust evidence, and high quality evaluation is vital to this. HM Treasury's Green and Magenta Books together provide detailed guidelines, for policy makers and analysts, on how policies and projects should be assessed and reviewed. The two sets of guidance are complementary: the Green Book emphasising the economic principles that should be applied to both appraisal and evaluation, and the Magenta Book providing in-depth guidance on how evaluation should be designed and undertaken. The risk of not evaluating, or of poor evaluation, is that policy makers are not aware if policies are ineffective or, worse still, result in overall perverse, adverse or costly outcomes. If there is no good evaluation evidence to demonstrate it, then we cannot be confident that taxpayers' money is being properly spent, even where policies are in reality highly effective. The knowledge we gain from good evaluation can be used to increase policy effectiveness and is essential in informing the development of new policies to achieve the best results.

This revision of the Magenta Book shifts emphasis away from the "analyst's manual" of the previous edition, to a broader guidance document aimed at both analysts and policy makers at all levels of government, both central and local. The new guidance recognises evaluation's place at the heart of policy development, and emphasises that the ability to obtain good evaluation evidence rests as much on the design and implementation of the policy as it does on the design of the evaluation. This gives policy makers much more of the responsibility for securing good evidence than was previously the case. However, this new responsibility need not bring with it significantly greater burdens for policy makers. The revised Magenta Book demonstrates that relatively minor adjustments in policy implementation can greatly improve the ability to obtain high quality evaluation evidence.

The Treasury is grateful for the significant contributions by policy makers and analysts working across Government and elsewhere to the development of this edition of the Magenta Book. Particular gratitude is due to those who participated in the consultation process and provided such detailed and valuable comments.



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Introduction

What is the Magenta Book?

1.1 All policies, programmes and projects should be subject to comprehensive but proportionate evaluation, where practicable to do so. The Magenta Book is the recommended central government guidance on evaluation that sets out best practice for departments to follow. It is hoped, however, that it will be useful for all policy makers and analysts, including those in local government and the voluntary sector. It presents standards of good practice in conducting evaluations, and seeks to provide an understanding of the issues faced when undertaking evaluations of projects, policies, programmes and the delivery of services. The Magenta Book is not a textbook on policy evaluation and analysis – the field has plenty of such texts[1]. Rather, it is written and structured to meet the specific and practical needs of policy makers and analysts working in public policy and explains:

- The important issues and questions to consider in how evaluations should be designed and managed;
- The wide range of evaluation options available;
- Why evaluation improves policy making;
- How evaluation results and evidence should be interpreted and presented; and,
- Why thinking about evaluation before and during the policy design phase can help to improve the quality of evaluation results without needing to hinder the policy process.

1.2 The Magenta Book is complementary guidance to the HM Treasury Green Book[2]. The Green Book presents the recommended framework for the appraisal and evaluation of all policies, programmes and projects. This framework is known as the "ROAMEF"[3] policy cycle, and sets out the key stages in the development of a proposal, from the articulation of the rationale for intervention and the setting of objectives, through to options appraisal and, eventually, implementation and evaluation, including the feeding back of evaluation evidence into the policy cycle. The Magenta Book provides further guidance on the evaluation stage of this policy process and central government departments and agencies should ensure that their own manuals or guidelines are consistent with the principles contained here.

1.3 Evaluation examines the actual implementation and impacts of a policy to assess whether the anticipated effects, costs and benefits were in fact realised. Evaluation findings can identify "what works", where problems arise, highlight good practice, identify unintended consequences or unanticipated results and demonstrate value for money, and hence can be fed back into the appraisal process to improve future decision-making.

The Magenta Book will be useful for:

- policy makers who wish to be able to provide evidence of a policy's effectiveness and value for money;

[1] For example http://www.socialresearchmethods.net/ http://ec.europa.eu/regional_policy/sources/docgener/evaluation/evalsed/index_en.htm
[2] http://www.hm-treasury.gov.uk/data_greenbook_index.htm
[3] ROAMEF stands for 'rationale, objectives, appraisal, monitoring, evaluation, feedback', and is described in more detail in Chapter 1.

- anyone commissioning, managing, working, or advising on an evaluation of a policy, project, programme or delivery of a service; and
- those seeking to understand or use evaluation evidence, particularly for the purposes of improving current policies and using that learning for future policy development.

1.4 The Book is divided into two parts.

- Part A is designed for policy makers. It sets out what evaluation is, and what the benefits of good evaluation are. It explains in simple terms the requirements for good evaluation, and some simple steps that policy makers can take to make a good evaluation of their intervention more feasible. It also discusses some of the issues around the interpretation and presentation of evaluation results, especially as they relate to the quality of the evaluation evidence.
- Part B is aimed at analysts and interested policy makers and is therefore more technical. It discusses in greater detail the key steps to follow when planning and undertaking an evaluation and how to answer evaluation research questions using different evaluation research designs. It also discusses approaches to the interpretation and assimilation of evaluation evidence.

1.5 References are provided in the text to supplementary guidance which provides more technical, detailed discussion of key areas[4].

[4] Supplementary guidance will also provide information about evaluation topics outside the scope of the Magenta Book, for example macro-economic evaluation.

Part A

This part of the Magenta Book is written for policy makers. Chapter 1 explains the benefits of undertaking good evaluations, and some of the difficulties that might be encountered if evaluations are not undertaken or are undertaken poorly. Chapter 2 explores the types of questions that evaluations can answer and provides an overview of the different types of evaluation that can answer these questions. It also introduces some of the issues which affect how well a policy can be evaluated and the implications this might have for the type and design of evaluation which is most appropriate. Chapter 3 considers the features of the policy itself that can affect how well the policy's impacts can be evaluated, and discusses minor adjustments which can be made to improve the chances of a good quality evaluation. Finally, Chapter 4 considers some of the practical aspects of planning an evaluation.

Chapter 1: Key issues in policy evaluation

Chapter 2: Identifying the right evaluation for the policy

Chapter 3: Building impact evaluation into policy design

Chapter 4: What practical issues need to be taken into account when designing an evaluation?

1 Key issues in policy evaluation

Key points

- Evaluation is an objective process of understanding how a policy or other intervention was implemented, what effects it had, for whom, how and why.
- Evaluations need to be tailored to the type of policy being considered, and the types of questions it is hoped to answer. The earlier an evaluation is considered in the policy development cycle, the more likely it will be that the most appropriate type of evaluation can be identified and adopted.
- Good-quality evaluations generate reliable results which can be used and quoted with confidence. They enable policies to be improved, or can justify reinvestment or resource savings. They can show whether or not policies are delivering as planned and resources being effectively used.
- Good-quality evaluations can play important roles in setting and delivering on government priorities and objectives, demonstrating accountability, and providing defensible evidence to independent scrutiny processes. They also contribute valuable knowledge to the policy evidence base, feeding into future policy development and occupying a crucial role in the policy cycle.
- Not evaluating, or evaluating poorly, will mean that policy makers will not be able to provide meaningful evidence in support of any claims they might wish to make about a policy's effectiveness. Any such claims will be effectively unfounded.

Introduction

1.1 This chapter provides an introduction to evaluation and outlines where it fits in the policy cycle. It explains what evaluation is, why it is important to evaluate and what the costs are of not evaluating, or of evaluating poorly.

What is evaluation and what benefits can it bring?

1.2 The primary focus of the Magenta Book is on policy evaluation[1] which examines how a policy or other intervention was designed and carried out and with what results.

1.3 Therefore, the focus is on the actual practice and experience of the policy and observations on what actually happened following implementation (rather than what was expected or intended, for instance, which is the topic of appraisal).

Evaluation can employ a variety of analytical methods to gather and assess information, and the choice of methods employed in any particular instance will depend on a wide range of factors which are the subject of the remainder of this book. In turn, this choice will affect what

[1] The Magenta Book generally uses the term 'policy evaluation' to refer to evaluations covering projects, policies and programmes. How evaluations differ across these various types of intervention is discussed in Chapter 2.

questions the evaluation might be able to answer and how strongly its conclusions can be relied upon. However, the focus on actual experience of a policy means that evaluation as described here is an impartial process which asks objective questions such as:

- What were the impacts of the policy?
- How was the policy delivered? and;
- Did the policy generate value for money?

1.4 Even when an evaluation asks a question on a subjective topic (such as stakeholder perceptions of effectiveness), it will seek to answer it in an objective way, such as:

- How successful did stakeholders think the policy was in achieving its objectives?
- Did the policy succeed in improving the public's perceptions of the problem?

1.5 In practice, of course, questions will be more complex and specific than this, and will often include consideration of how different features of the policy affected the way it performed and delivered, and how its outcomes varied across those it impacted upon: what worked for whom in what circumstances. The types of questions which different types of evaluation can answer are the subject of Chapter 2. Good evaluation, as described in this book, is an objective process, therefore the answers it provides will give an unbiased assessment of a policy's performance. For this reason, evaluation results might be challenging in real terms and from a presentational perspective.

1.6 However, good evaluations should always provide information which could enable less effective policies to be improved, support the reinvestment of resources in other activities, or simply save money. More generally, evaluations can generate valuable information and contribute to a wide range of initiatives and objectives. For instance good evaluation can:

- provide a sound scientific basis for policy making, by providing reliable understanding of which interventions work and are effective. An understanding of how and why policies work can also be used to inform the development of new policies, and to improve the effectiveness and reduce the burden of existing ones;
- underpin practical resourcing and policy making exercises such as Spending Reviews and the formulation of new strategies. They can contribute to the setting of policy and programme objectives, and can be used to demonstrate how those objectives are being met; and
- they can therefore provide accountability, by demonstrating how funding has been spent, what benefits were achieved, and assessing the return on resources. This can help to satisfy external scrutiny requirements and comply with sunset clauses and other formal requirements that make a link between evaluation and the continuation of the policy.

1.7 Good evaluation, and the reliable evidence it can generate, provides direct benefits in terms of policy performance and effectiveness, but is also fundamental to the principles of good government, supports democratic accountability and is key to achieving appropriate returns from taxpayers' resources. A good evaluation is therefore a normal and natural part of policy making and effective government and is a powerful tool available to the policy maker.

What factors affect how a policy should be evaluated?

1.8 Evaluations are a crucial (and in some instances mandatory – see Box 1.A) part of the policy cycle set out below and offer both strategic and practical benefits. Therefore, while it might be

tempting to do without an evaluation, or to 'muddle through' with a less formal, more subjective assessment of a policy's performance perhaps for time or resource related reasons, or the risk of a 'difficult' conclusion – such an approach is not without cost. A decision not to evaluate a policy, or only to evaluate it in a less formal or reliable way, is associated with a number of real risks:

- a policy which is ineffective might continue;
- overall adverse or costly impacts will be generated, now or in the future; or
- opportunities to improve the policy, or to save money or reinvest in other, more worthwhile projects might be missed.

1.9 Conversely, even if the policy is actually highly effective or generates good value for money, a substandard (or absent) evaluation will mean:

- Policy makers cannot justifiably claim that any positive outcomes they might observe were actually caused by the policy rather than by chance or were attributable to an alternative policy; and
- as a result, policy makers could not claim that their intervention delivered value for money, or had been demonstrated through sound analysis to be effective.

1.10 The key here is clearly the meaning of the phrase "good evaluation", what defines a good evaluation and what is necessary to achieve one. This is the subject of subsequent chapters of the Magenta Book. A wide range of factors needs to be taken into account when deciding what sort of evaluation is necessary and appropriate in any given case. These include:

- the nature of the policy, its objective scale, complexity, innovation, form of implementation and future direction;
- the objectives of the evaluation and the types of questions it would ideally answer;
- the timing of key policy decisions and the information on which they need to be based;
- the types of impacts which are expected, the timescales over which they might occur, and the availability of information and data relating to them and other aspects of the policy; and
- the time and resources available for the evaluation.

1.11 The choice of evaluation will often involve some trade-offs between these factors, which are considered further in Chapter 2. In some cases, it might be proposed that an intensive, rigorous evaluation is not justified, and a more limited, "lighter touch" evaluation is more appropriate. In others, it could be better to choose a more rigorous evaluation with a more restricted scope, since at least then the evidence obtained should be useful and reliable. However, such choices must be made in full recognition of the limits they are likely to place on what can subsequently be said on the basis of the results obtained.

1.12 The earlier that an evaluation can be planned in the policy development process, the more likely it is that it will be possible to consider these trade-offs and choose the most appropriate evaluation. The later in the policy process the evaluation is considered the fewer options there are for undertaking it. Judgement needs to be made during the development of the policy on the scale and form of evaluation that is required, which might even extend to considering whether policy implementation might be adjusted to make a stronger evaluation more feasible. This judgement will involve some technical issues and should therefore be made in consultation

with analytical specialists who can advise about the trade-offs involved and the implications of different choices.

Box 1.A: When is evaluation a formal requirement?

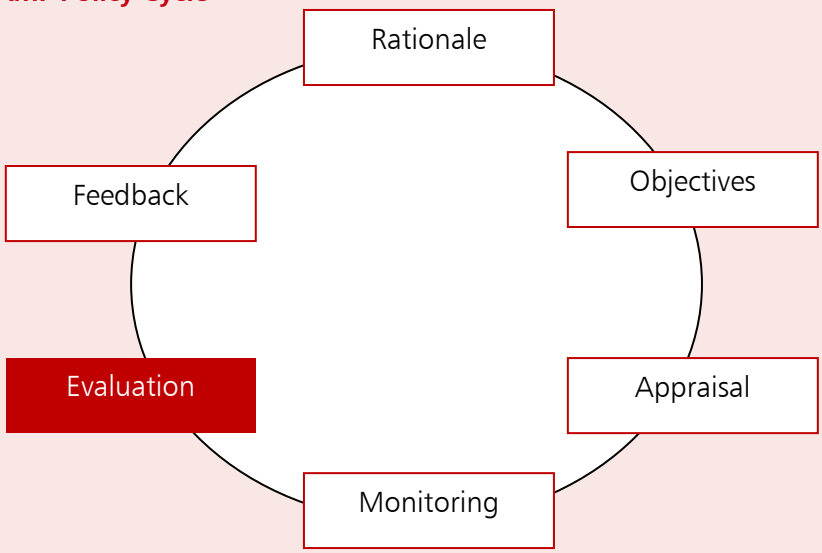
- There are a number of formal requirements to evaluate that need to be taken into account during the development of any evaluation, which might affect its scope, design and timing. Examples of when an evaluation might be a requirement include:
  - policies where a formal impact assessment was required and which are subject to Post-Implementation Review;
  - regulations containing a Sunset Clause or a Duty to Review clause; and
  - projects which are subject to a Gateway review also require a Post-Implementation Review as part of the Gateway 5: Benefits Realisation process.
- The National Audit Office (NAO) and the Public Accounts Committee (PAC) may examine the policy intervention being evaluated as part of their enquiries and would expect to see evidence that it was planned and implemented with due regard for value for money. Where the NAO undertakes a value for money study it will publish a report, which is likely to be the subject of a hearing of the PAC. The NAO's interest may include examining whether the intervention was subject to appropriate evaluation. (www.nao.org.uk)

How evaluation fits into the policy cycle

1.13 Evaluation is an integral part of a broad policy cycle that the Green Book formalises in the acronym ROAMEF. ROAMEF stands for Rationale, Objectives, Appraisal, Monitoring, Evaluation and Feedback. The ROAMEF cycle is presented in Chart 1.A. Though evaluation evidence can feed in throughout the whole policy cycle it is useful to highlight some of the key sections where evidence, including evaluation evidence can be used:

- appraisal occurs after the rationale and objectives of the policy have been formulated. The purpose is to identify the best way of delivering on the policy prior to implementation. It involves identifying a list of options which meet the stated objectives, and assessing these for the costs and benefits that they are likely to bring to UK society as a whole. The Green Book is the main source of guidance on appraisal;
- monitoring seeks to check progress against planned targets and can be defined as the formal reporting and evidencing that spend and outputs are successfully delivered and milestones met; and
- evaluation is the assessment of the policy effectiveness and efficiency during and after implementation. It seeks to measure outcomes and impacts in order to assess whether the anticipated benefits have been realised.

Chart 1.A: The ROAMF Policy Cycle



1.14 Chart 1.A suggests that these phases of the ROAMEF cycle occur in a stepwise fashion, but in practice this one-directional relationship rarely holds, the process is often iterative and there are significant interdependencies between the various elements. For example, data produced through monitoring activities are often used at the evaluation stage. In addition, evaluations can play a role in the policy development process – through, for instance, the use of pilots and trials – implying the presence of (potentially numerous) feedback loops at different stages of the cycle.

1.15 Therefore, whereas the simple ROAMEF policy cycle shows that an evaluation will take place after the policy has been implemented, evaluations can, in fact, occur at practically any other time. And importantly, decisions affecting and relating to any evaluation will almost always be taken much earlier in the policy process. Chapter 3 explains how what might seem minor aspects of the way a policy is formulated or implemented can have significant impacts upon the ability to evaluate it rigorously. It is important, therefore, to ensure that evaluation is considered and planned at the same time as the policy is being formulated so that these links can be recognised and accounted for.

2 Identifying the right evaluation for the policy

Key points

- Evaluations can be designed to answer a broad range of questions on topics such as how the policy was delivered, what difference it made, whether it could be improved and whether the benefits justified the costs.
- Broadly, these questions can be answered by three main types of evaluation. Process evaluations assess whether a policy is being implemented as intended and what, in practice, is felt to be working more or less well, and why. Impact evaluations attempt to provide an objective test of what changes have occurred, and the extent to which these can be attributed to the policy. Economic evaluations, in simple terms, compare the benefits of the policy with its costs.
- Understanding why an intervention operated in a certain way and had the effect it had generally involves combining the information and analytical approaches of the different types of evaluation and they should, therefore, be designed and planned at the same time.
- The choice of evaluation approach should be based on a statement of the policy's underlying theory or logic and stated objectives – how the policy was supposed to have its effect on its various target outcomes. The more complex the underlying logic, the more important it will be to account for other factors which might affect the outcome.
- Having a clear idea about the questions that need to be addressed and the required type(s) of evaluation at an early stage will help inform the design of the evaluation and the expertise required.

Introduction

2.1 This chapter discusses the different types of questions that evaluations can answer and provides a brief overview of the various types of evaluation that are possible. There are three broad classes of question which evaluation might be used to answer:

- How was the policy delivered?
- What difference did the policy make?
- Did the benefits of the policy justify the costs?

2.2 In most cases, there will also be considerable value in understanding why the policy was delivered in the ways it was, why the policy made the difference it did (or not), and how the costs and benefits were generated.

How was the policy delivered? Process evaluation

2.3 The question of how the policy was delivered is concerned with the processes associated with the policy, the activities involved in its implementation and the pathways by which the policy was delivered. These might vary quite considerably according to the nature of the policy in question, so there is no simple, generic characterisation of questions such as those that tend to be applicable in for impact evaluation.

2.4 However, using a practical example, such as the example of a policy of recruiting people onto a new training scheme to raise employment levels that is discussed at paragraph 2.7, questions might, for instance, seek to describe how individuals were recruited onto the scheme, what criteria were used to recruit them, and what the qualifications of training providers were. It might explore to what extent these factors varied across different parts of the country, and whether recruitment processes operated in favour of or to the detriment of particular groups, such as disabled people or those from particular ethnic groups. It could examine whether there were any difficulties or barriers to delivering the intervention as planned, and what steps were taken to increase course attendance. Box 2.A describes some of the approaches and methods which could be used to evaluate policy processes. Chapter 8 in Part B provides a more detailed description of process evaluation.

Box 2.A: How was the policy delivered? Process evaluation

Questions relating to how a policy was delivered cover the processes by which the policy was implemented, giving rise to the term "process evaluation". In general, process-related questions are intentionally descriptive, and as a result, process evaluations can employ a wide range of data collection and analysis techniques, covering multiple topics and participants, tailored to the processes specific to the policy in question.

Process evaluations will often include the collection of qualitative and quantitative data from different stakeholders, using, for example, group interview, one to one interviews and surveys. These might cover subjective issues (such as perceptions of how well a policy has operated) or objective aspects (perhaps the factual details of how a policy has operated). They might also be used to collect organisational information (for instance, how much time was spent on particular activities), although "administrative" sources (timesheets and personnel data, for instance) might be more reliable, if available.

Although essentially descriptive, these types of information can be vital to measuring the inputs of an intervention (which might not be limited to simple financial budgets, but might also include staff and other resources "levered in" from elsewhere) as well as the outcomes (surveys might be used to measure aspects of a scheme's participants' quality of life, for instance). This illustrates the practical link between process and impact evaluations, which often implies a need to consider the two together.

What difference did the policy make? Impact evaluation

2.5 Answering the question of what difference a policy has made involves a focus on the outcomes of the policy. Outcomes are those measurable achievements which either are themselves the objectives of the policy – or at least contribute to them – and the benefits they generate.

2.6 Questions under this heading might ask:

- What were the policy outcomes, were there any observed changes, and if so by how much of a change big was there from what was already in place, and how much could be said to have been caused by the policy as opposed to other factors?
- Did the policy achieve its stated objectives?
- How did any changes vary across different individuals, stakeholders, sections of society and so on, and how did they compare with what was anticipated?
- Did any outcomes occur which were not originally intended, and if so, what and how significant were they?

2.7 For example, a policy to recruit unemployed individuals onto a new training scheme which provides seminars to improve work skills might have the ultimate objective of reducing the costs of unemployment. It might attempt to do this by increasing the number of participants who receive and take up job offers, and increasing the duration of their employment. It might try and achieve this by improving participants' skills and qualifications, through seminar attendance and learning. Each of these measures – seminar attendance, number of job offers, duration of employment spells, the costs of unemployment, and so on – could be regarded as intended outcomes of the policy, and hence the subjects of the types of questions just described.

2.8 Questions relating to what difference the policy made concern the change in outcomes caused by the policy, or the policy "impact" – hence the term "impact evaluation", described briefly in Box 2.B. Issues around the reliability of impact evaluation results and how they are affected by the design of the policy are covered in Chapter 3, with further technical discussion provided in Chapter 9.

Box 2.B: What difference did the policy make? Impact evaluation

Impact evaluation attempts to provide a definite answer to the question of whether an intervention was effective in meeting its objectives. Impact can in principle be defined in terms of any of the outcomes affected by a policy (e.g. the number of job interviews or patients in treatment), but is most often focused on the outcomes which most closely match with the policy's ultimate objectives (e.g. employment rates or health status).

The key characteristic of a good impact evaluation is that it recognises that most outcomes are affected by a range of factors, not just the policy. To test the extent to which the policy was responsible for the change, it is necessary to estimate – usually on the basis of (often quite technical) statistical analysis of quantitative data – what would have happened in the absence of the policy. This is known as the counterfactual.

Establishing the counterfactual is not easy, since by definition it cannot be observed – it is what would have happened if the policy had not gone ahead. A strong evaluation is one which is successful in isolating the effect of the policy from all other potential influences, thereby producing a good estimate of the counterfactual. Sometimes the original business case for a policy might have made some estimates of this and forecast the difference the policy might make; this could be used in designing an evaluation. An evaluation might also be able to explain how different aspects of the policy contributed to the impact.

Whether a good impact evaluation is possible depends on features of the policy itself, the outcomes it is targeting, and how well the evaluation is designed. If a good evaluation is not possible, or the evaluation is poorly designed, the estimated counterfactual will be unreliable, and there will be uncertainty over whether the outcomes would have happened anyway, regardless of the policy. Then it will not be possible to say whether the policy was effective or not, and even if policy outcomes appear to move in desirable ways, any claims of policy effectiveness will be unfounded.

2.9 Clearly, there is overlap between the types of questions answered by process evaluation and those addressed through impact evaluation. Policy delivery can be described in terms of output quantities such as the numbers and characteristics of individuals that were recruited, how many training seminars were provided and how many individuals were in gainful employment after the training programme completed. But these are also measurable outcomes of the policy (although not necessarily outcomes which directly deliver benefits). This means that process evaluations often need to be designed with the objectives and data needs of impact evaluation in mind and vice versa. Using and planning the two types of evaluation together will, therefore, help to ensure that any such interdependencies are accounted for. The ability to obtain a convincing explanation will depend on the underlying "theory" of the intervention – that is, how the intervention was supposed to work (see section below on "What type of evaluation for the policy?")

Did the benefits justify the costs? Economic evaluation

2.10 A reliable impact evaluation might be able to demonstrate and quantify the outcomes generated by a policy, but will not on its own be able to show whether those outcomes justified that policy. Economic evaluation is able to consider such issues, including whether the costs of the policy have been outweighed by the benefits. There are different types of economic evaluation, including:

- cost-effectiveness analysis (CEA), which values the costs of implementing and delivering the policy, and relates this amount to the total quantity of outcome generated, to produce a "cost per unit of outcome" estimate (e.g. cost per additional individual placed in employment); and
- cost-benefit analysis (CBA), which goes further than CEA in placing a monetary value on the changes in outcomes as well (e.g. the value of placing an additional individual in employment). This means that CBA can examine the overall justification for a policy ("Do the benefits outweigh the costs?"), as well as compare policies which are associated with quite different types of outcome. CBAs quantify as many of the costs and benefits of a policy as possible, including wider social and environmental impacts (such as crime, air pollution, traffic accidents and so on) where feasible. The Magenta Book uses the very general term "value for money" to refer to the general class of CBA-based approaches, but it is important to recognise the more general scope of CBA which include those impacts which are not routinely measured in money terms. The Green Book provides more detailed guidance on CBA and the valuation of economic impacts.

2.11 Economic approaches value inputs and outcomes in quite particular ways, and it is crucial that the needs of any economic evaluation are considered at the design stage. Otherwise, it is very likely that the evaluations will generate information which, although maybe highly interesting and valid in itself, is not compatible with a cost-benefit framework, making it very difficult to undertake an economic evaluation.

Why did what happened occur?

2.12 Finally, there is the additional question of why what was observed about a policy's processes or outcomes occurred. In some limited cases, this might be of only secondary interest – so long as an intervention can be shown to work, the exact reasons why might be considered unimportant. In other cases, the particular evaluation technique adopted might not be capable of explaining the mechanisms involved. It is likely, however, that an understanding of why the policy generated the processes and outcomes it did will be desirable for a number of reasons, including:

- so that effectiveness and value for money can be improved by emphasising the most successful parts of the policy and minimising (and maybe stopping) those

which work less well. The understanding can also permit any factors which are hindering policy effectiveness to be addressed, including making the policy work better for those individuals or areas who benefited less than others, and avoiding any undesirable unintended consequences;

- so that policy scope and coverage can be successfully and effectively extended (e.g. through the national roll-out of a regional pilot). Future policy-making can be informed and improved through contribution to the evidence base around "what works"; and
- an understanding of the workings of a policy and the reasons for its success adds to the credibility of accountability and value for money statements, and improves transparency and decision-making, as outlined in Chapter 1.

What type of evaluation for the policy?

2.13 The preceding discussion has suggested a number of factors which should be considered when deciding what type of evaluation is appropriate for any given intervention. The first is the type of information required about the policy intervention, that is, the questions the evaluation needs to answer. Process and impact evaluations can sometimes consider similar issues and questions – a process outcome (e.g. the number of job interviews following a training scheme) can also be an "impact" outcome (e.g. the overall increase in the number of job interviews for the trainee group).

2.14 There is then the additional consideration of what sort of answers process and impact evaluations can provide. This chapter has portrayed the answers from process evaluations as more descriptive, and the answers from impact evaluations as more definite and in some sense "robust". This is because good impact evaluations attempt to control for all the other factors which could generate an observed outcome (that is, they attempt to estimate the counterfactual). But again, the distinction between the two is not as simple as this suggests. Chapter 3 provides more information about impact evaluations.

2.15 This is because the importance of controlling for these other factors depends on how many there are and how likely they are to affect the result of interest. If the relationship being examined between the policy and the desired outcome is a simple and direct one, there might be few intervening factors and the need to take account of them by estimating the counterfactual with some form of control group might be slight. In these cases, the more descriptive assessment provided by a process evaluation might be sufficient to give a robust answer about whether the policy delivered its desired outcome. However, if the relationship is complex, with many factors potentially affecting the outcome(s) of interest, a more descriptive approach is unlikely to be able to account for all these factors reliably, and a more formal attempt to estimate the counterfactual will be necessary.

How do evaluation questions relate to the underlying "logic" of the intervention?

2.16 Clearly, the complexity of the relationship(s) involved relates to the question being asked of the evaluation – and here the concept of the intervention "theory" or "logic model" is relevant. Logic models[1] describe the relationship between an intervention's inputs, activities, outputs, outcomes, and impacts defined in Table 2.A.

[1] For further information, the Department for Transport's Hints and Tips guide to logic mapping is a practical tool which can aid understanding and the process of developing logic models. Logic mapping: hints and tips, Tavistock Institute for Department for Transport, October 2010. http://www.dft.gov.uk/

Table 2.A: Definitions of the terms used in logic models[2]

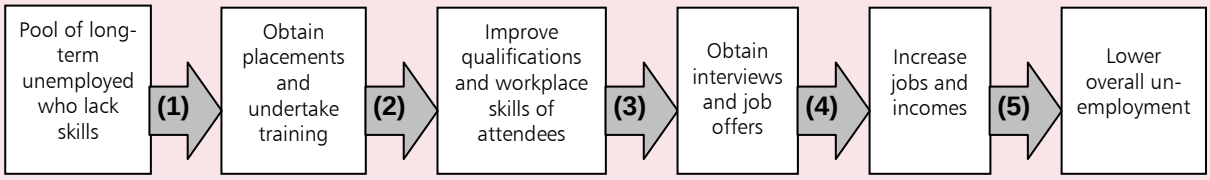
Term	Definition	Example
Inputs	Public sector resources required to achieve the policy objectives.	Resources used to deliver the policy.
Activities	What is delivered on behalf of the public sector to the recipient.	Provision of seminars, training events, consultations etc.
Outputs	What the recipient does with the resources, advice/ training received, or intervention relevant to them.	The number of completed training courses.
Intermediate outcomes	The intermediate outcomes of the policy produced by the recipient.	Jobs created, turnover, reduced costs or training opportunities provided.
Impacts	Wider economic and social outcomes.	The change in personal incomes and, ultimately, wellbeing.

2.17 Box 2.C presents a simplified logic model for a hypothetical intervention to reduce unemployment by increasing training. There are a number of steps in the intervention through which it is supposed to achieve its aims. As the number of steps increases, the complexity of the intervention also increases, as does the number of factors which could be driving any observed changes in outcomes, and the period of time over which they might be observed. But between any two given steps (e.g. link (1) in Box 2.C), the relationships are much simpler and there are fewer factors "at play". Hence, the importance of estimating a reliable counterfactual is reduced when the number of steps is lower, and increased as it rises. The relative suitability of process and impact evaluation for answering questions relating to how the intervention performed similarly is also likely to change with the number of steps.

[2] *Evaluation Guidance for Policy makers and Analysts: How to evaluate policy interventions*, Department for Business Innovation and Skills, 2011

Box 2.C: Formulating an evaluation: an example

As an example, suppose an evaluation is being planned for a job training scheme which is intended to provide placements for long-term unemployed people in companies where they can gain marketable skills and qualifications. The scheme aims to increase the number of interviews and job offers the participants receive, thereby increasing the number in jobs and their incomes. There might ultimately be a reduction in overall unemployment. A simplified intervention logic would be:



A number of evaluation questions arise from link (1) in the chain. For example, how were people recruited onto the scheme? What proportions were retained for the duration of their placement? For how long had they been unemployed before starting?

Link (2) might give rise to questions such as: what change was there in participants' skills and qualifications? Link (3) might describe the type and number of job offers obtained, and the characteristics of those participants obtaining them. But it might also involve assessing whether any improvement in skills contributed to participants gaining those interviews and job offers. Link (4) might measure the increase in the number and type of jobs, and the incomes of participants. There might also be interest in knowing whether the scheme generated genuinely new jobs, or whether participants were simply taking jobs that would otherwise have been offered to others.

Questions of interest under link (5) might include whether the scheme made any contribution to overall employment levels, either locally or nationally, taking account of economic conditions and trends. There might also be some attempt to measure the impact of the scheme on local economic performance and gross domestic product.

2.18 So using the example in Box 2.C, a process evaluation might be suitable for finding out which participants obtained which types of employment and what their characteristics were (link (4)). But this information would also be extremely valuable (and perhaps even necessary) to answer the question, "Did the training intervention increase participants' employment rates and incomes?", where the large number of possible factors affecting the result would mean that only impact evaluation is likely to be able to generate a reliable answer.

2.19 However, if the question is, "To what extent was the scheme successful in getting participants onto placements?", a process evaluation might be quite sufficient on its own. If participants were not accessing those placements previously, it might be reasonable to assume that any observed increase was down to the scheme. There might be some need to account for any "displacement" (e.g. participants switching from other placements they might have previously accessed), but if participants' training histories are reasonably known and stable, the chance that some other factor might have caused some sudden change in behaviour might be considered low. With such a simple question, although an impact evaluation might obtain a more robust answer, it might not add much more than could be achieved by a process evaluation.

2.20 Finally, the question might be, "What effect has the scheme had on overall unemployment?" (effectively links 1-5). The great many factors which determine overall unemployment (macro-economic conditions, the nature of local industries, and so on) would suggest that only an impact evaluation could feasibly secure an answer. However, with such a complex relationship, the chance of the effects of a single training scheme showing up in measures of even quite local employment could be very small, unless the scheme represents a very significant change of policy and injection of resources operating over a considerable length

of time. Even then, even a very strong, intensive impact evaluation might not be able to detect an effect amidst all the other drivers of the outcome.

Factors affecting the choice of evaluation approach

2.21 The choice of evaluation approach will therefore depend on a range of issues such as:

- how complex is the relationship between the intervention and the outcome(s) of interest. How important will it be to control for other drivers of the outcome of interest? If control is important, this might point more towards an impact evaluation approach. Simple relationships can often be investigated just as robustly by process evaluations;
- the "significance" of the potential outcomes in terms of their contribution to overall policy objectives. More limited, intermediate outcomes might be more readily evaluated robustly, but might not give a close or direct measure of the benefits of the policy;
- how significant the intervention is, in terms of the identifiable change in practice or increase in resources it represents. This will affect the extent to which the intervention could be expected to generate a large enough effect to "show up" amidst the other potential drivers. The distinction between projects, policies and programmes, strategy and "best practice" initiatives is relevant here, since these can vary significantly in terms of how much they represent distinct and identifiable interventions[3]; and
- how the intervention is implemented, and whether this facilitates or hinders the estimation of the counterfactual. This is discussed further in the next chapter.

[3] *Guidance for transport impact evaluations*, Department for Transport, March 2010, provides a fuller discussion http://www.dft.gov.uk/

3 Building impact evaluation into policy design

Key points

- Impact evaluations have special requirements which benefit from being considered during the policy design stage, because of the need to understand what would have occurred in the absence of the policy (generally through examining a comparison group of unaffected individuals or areas).
- Minor changes to policy design can dramatically improve evaluation options and quality. Conversely, failure to consider the evaluation early enough can limit those options and the reliability of the evidence obtained.
- When thinking about an impact evaluation technique such as randomised controlled trials and piloting should be considered. Where this is not feasible, alternative ways of implementing the policy, such as phased introduction and allocation by scoring, can strengthen evaluation significantly.
- These types of adjustments need not introduce delays or complications to policy implementation. However, if policy makers intend to by-pass these considerations due to other factors which are seen as over-riding, they should do so only after a full examination of the implementation options and the pros and cons entailed by each.

Introduction

3.1 This chapter looks in more detail at impact evaluations and at some of the minor changes that can be made in the policy design process to improve evaluation quality and reliability.

Thinking about impact evaluation when designing the policy

3.2 As discussed in Chapter 2, one of the keys to good impact evaluation is obtaining a reliable estimate of the **counterfactual**: what would have occurred in the absence of the policy. This is frequently a significantly challenging part of impact evaluation, because of the often very large number of factors, other than a policy itself, which drive the kinds of outcome measures relevant to public policy (e.g. increased employment, falling crime, reduced prevalence of obesity). There are various approaches to impact evaluation (sometimes termed research designs) which can be used to attempt to isolate the impact of the policy from all these other drivers. The success of these approaches largely depends on their ability to establish a counterfactual through obtaining what are called "comparison (or control) groups". This in turn is critically affected by the way the policy is "allocated", that is, who or where receives the policy and when.

3.3 In other words, the design and implementation of a policy affects how reliably it can be evaluated, and even quite minor adjustments to the way a policy is implemented can make the difference between being able to produce a reliable evaluation of impact and not being able to produce any meaningful evidence of impact at all. This chapter briefly explains the role of comparison groups in improving how well a policy can be evaluated, and then provides some

simple examples of how minor policy adjustments can improve the chances of a reliable evaluation. It finishes with a consideration of the factors which might be taken into account when deciding whether such adjustments might be appropriate

The role of comparison groups in identifying the impact of a policy

3.4 Research designs usually estimate the counterfactual by ensuring that there are some individuals, groups or geographical areas not exposed to the policy at some point during its implementation. A comparison can then be made between those who have been exposed to the policy and those who have not. A simple example of this is a medical drugs trial where one group of participants (the "treatment" group) receives a new drug and the other (the "comparison" or "control" group) receives a placebo. Who actually receives the drug or the placebo is decided by chance, through a formal randomisation process. Then, so long as the treatment and control groups are similar in all other relevant respects, they can act as comparisons for one another. If there is then any difference in observed outcomes between the two, it can reasonably be assumed (under certain technical assumptions) that the difference is due to the policy (treatment).

3.5 There are two obvious difficulties with applying this simple scenario to the public policy context. First, those areas or individuals who receive policy "treatment" in practice do tend to be different from those that do not in quite obvious and relevant ways. Crime reduction policies tend to be implemented more often and intensely in areas with higher crime rates. Individuals who enrol on employment assistance programmes tend to be those who have lower work skills, lower educational achievement and live in areas with poorer economic performance and prospects. Those who choose to stay in treatment for drug misuse tend to be those who are more motivated to improve their lives and reduce the costs of their drug problems. Then, the difference between the treatment and control groups will not just be that one received the intervention and one did not, but all of the other differences in underlying characteristics. The comparison will be between "apples and pears", and it will not be possible to tell whether differences in observed outcomes between the two groups are due to the intervention or something else.

3.6 Second, social policy interventions do not tend to be administered to the policy target group randomly, with no regard to perceived need, justification and so on. So there is not generally a group of untreated subjects who could have been eligible for the intervention but were purposely denied it. Those that do not receive an intervention tend to be those for whom it is deemed unsuitable, and will therefore be systematically different from those who are. So there is unlikely to be a readily available comparison group of non-treated individuals who are similar to those who do receive treatment.

What modifications might we make and why?

3.7 Controlling policy allocation – which individuals or areas receive which interventions, and when – can play a key role in successful impact evaluation by affecting whether there is a meaningful comparison group. Public policy interventions tend naturally to be allocated in ways which conflict with good impact evaluation, but there are some minor adjustments which can be made to policy allocation which can dramatically improve the feasibility of obtaining meaningful estimates of impact. A simple explanation of some of these adjustments is provided in Box 3.A.

3.8 At first glance, accommodating evaluation in these ways might appear to require compromising on policy effectiveness. There might be concerns that planning research designs will delay the launch of a policy. Not necessarily targeting those subjects in most "need" is sometimes claimed to be limiting the benefits recipients might gain. Holding back a comparison group of unaffected individuals is similarly sometimes claimed to be limiting the numbers able to

benefit. But there are strong counter-arguments against each of these points which should be recognised.

Box 3.A: What policy adjustments can improve evaluation chances? Some examples

Pilots

For interventions that are innovative, experimental or otherwise associated with a high degree of uncertainty, **piloting** is a recommended and often used way to introduce the policy. (A detailed review of pilots has been published by the Cabinet Office).[1] This allows the policy to be tried out and information collected before full-scale resources are committed. In terms of generating a comparison group, piloting works because not every potential subject is exposed to the policy immediately. However, there is still likely to be a temptation on the part of those owning or delivering the pilot to allocate the intervention to those deemed most in need or otherwise deserving of it, leading to the same 'apples and pears' problem as was described in paragraph 3.5. Piloting should therefore be combined with one of the other allocation mechanisms described below.

Randomisation and randomised control trials

How should the policy be allocated to pilot areas, or to individuals or institutions within those areas? The method offering the strongest measure of policy impact is **randomisation**, often in a form known as a randomised controlled trial (RCT). In an RCT, the allocation of individuals, groups or local areas to receive the intervention is determined by lottery or some other purely random mechanism. Carefully conducted, a RCT provides the clearest evidence of whether an intervention has had an effect. RCTs should therefore be near the top of the list of potential allocation mechanisms, especially for policies that are experimental in nature. However, it is often claimed that RCTs are not appropriate or possible for a variety of operational, underpinning logical or ethical reasons. Indeed, there are a range of factors which can make randomisation difficult to implement. For instance, it is not likely to be suitable for assessing the impact of changes in universal policies. (For example, it would not be feasible to change the law on the legal blood alcohol limit for a random selection of drivers).

Phased introduction and intermittent operation

A variant of randomised allocation is **phased introduction,** whereby all participants in the pilot receive the intervention, but sequentially over some period of time. The periods of time when some participants have received the intervention and others have not can then serve to generate a comparison group (though you still need to control in some way for other factors ongoing during the time delay). It is still preferable to use randomisation to determine the order in which participants receive the intervention, to avoid a situation where "the most deserving" or "most prepared" receive it first – this might be considered more acceptable within a pilot in which all participants are planned to receive the intervention eventually. Obviously, phased introduction need not be limited to pilots and can also be used for the roll-out of general (e.g. national) policies.

A further variant of the phased introduction approach might be termed **intermittent operation**, where interventions that are short term in nature are applied in bursts. This approach is only likely to be suitable for particular types of intervention which are appropriately flexible (advertising campaigns might be one example).

[1] *Trying it out – the role of "pilots" in policy-making*, Cabinet Office, 2003

Objective allocation rules

Where policies are targeted towards individuals, institutions or areas that have the greatest need (for example, prolific offenders, "failing" schools or deprived neighbourhoods), evaluation can be made much stronger (and the policy more transparent) by employing objective allocation rules (e.g. scoring systems or funding formulae) to determine who receives the policy. These policies can be evaluated effectively if these rules are well documented and applied. One approach is to assign a score to each offender, school, and so on, based on their level of need, so that those above a certain score then receive the policy, and those below do not. Comparison might then be made between subjects who received similar scores but who were just above and just below the threshold, or perhaps comparing those in just in scope of a policy with those just out of scope.[2] Waiting lists are an administrative approach to allocation which can combine the features of phased introduction and objective allocations rules (e.g. a scoring system to assess needs and hence treatment priority).

Measures of relative effectiveness

If a policy must be introduced everywhere simultaneously then it will not always be possible to obtain an estimate of the full policy impact. However, some modifications might allow an estimate to be made of the impact on effectiveness of changes in the level or intensity of policy exposure – that is, of one extent of implementation relative to another. In these cases, the level of exposure which a subject receives needs to be decided in a way similar to the approaches discussed here (e.g. randomly, or through a scoring system), to ensure that exposure is not tailored by the policy maker to match needs of the intervention target or participant

3.9 As regards the timing of policy launches, avoiding delays can simply be a question of sound project management – including preparing for the evaluation in parallel with the other activities necessary to set up the policy. Moreover, many of the allocation mechanisms described in Box 3.A could be said to represent rather minor modifications of practice which do not imply significant policy delays. Good impact evaluation can be compatible with quick policy timescales, so long as it is considered early enough in the development process.

3.10 In response to the claim that adjusting implementation will reduce effectiveness or that random allocation of the policy might raise ethical concerns that the policy would not be delivered to those most in need, at least with policies where there is a reasonable degree of uncertainty about outcomes or value for money, one of the principal reasons for undertaking an impact evaluation is to determine whether an intervention is effective or offers value for money at all. In these situations, it does not follow that temporarily restricting implementation or using random allocation will necessarily reduce policy effectiveness. It could just as easily be the case that overall effectiveness might actually increase, by avoiding resources being wasted subsequently on policies which do not work or do not offer good value for money.

3.11 Even when a policy is implemented initially in a restricted way (for instance, in the form of a pilot or phased introduction), it might still be targeted at those subjects deemed most in need, rather than through a less discretionary, more random process. This might be in an attempt to

[2] For example in the Department for Work and Pension's evaluation of the New Deal for Young People, those included in the policy scope (people aged 18-24) were compared with those out of scope (people aged 25 – 49) using a difference s in differences approach. See *Findings from the Macro evaluation of the New Deal for young people*, Department for Work and Pensions, 2002 http://www.dwp.gov.uk/

"appease" any persistent concerns about limiting effectiveness. However, if so, it should be recognised that there will be negative consequences for the eventual evaluation. Not only will it be made more difficult to achieve reliable results (for the "apples and pears" reason described in paragraph 3.5), but any results which are obtained will relate to the recipients of the restricted policy only, and will not be readily applicable to those areas or individuals which would come under a more widely rolled-out policy. This will make extrapolation more difficult.

3.12 It is clear that impact evaluation has certain special requirements. Often these can be met by taking some relatively simple steps during policy development. The risks discussed in paragraph 3.8 should be recognised, therefore, but not exaggerated or used as a routine excuse to avoid undertaking robust evaluation. Nevertheless, there might be occasions where there is pressure to implement a policy as quickly as possible, in a quite specific way, with little thought given to the implications for any subsequent evaluation. If this is the case, it is better for decisions to be made only once the implementation options have been identified and their implications for evaluation and evidence considered. In some cases, pressure to implement might simply reflect a lack of recognition of the negative consequences for the evaluation, or the ease with which evaluation needs can be accommodated.

4 What practical issues need to be taken into account when designing an evaluation

Key points

- Planning an evaluation involves identifying the evaluation audience and objectives, the appropriate evaluation type, the governance structure, the resources required and the timing. Developing an evaluation plan at an early stage will help to ensure that all the important steps have been considered.
- Any evaluation can require a variety of resource types, depending on the evaluation, including funding, staff management, procurement expertise, and analytical staff input.
- Evaluations need to be proportional to the risks, scale and profile of the policy, and this has implications for the type and level of resources required.

Introduction

4.1 Chapters 1 to 3 have introduced the key theoretical concepts of evaluation and what they mean for policy design. This chapter discusses some of the practical considerations when planning an evaluation, including when and how evaluations should or shouldn't be undertaken, and the resources required.

The main steps in the evaluation process

4.2 Planning and undertaking an evaluation will involve a number of steps and considerations. It can be helpful to develop a structured plan at an early stage, which ensures all aspects have been considered and helps guide the evaluation activity. This will normally be linked to the steps outlined in Table 4.A. Part B of the Magenta Book provides greater detail related to these steps.

Table 4.A: Steps involved in planning an evaluation

Steps involved in evaluation	Questions to consider
Defining the policy objectives and intended outcomes	• What is the programme logic or theory about how inputs lead to outputs, outcomes and impacts, in the particular policy context?
Considering implications of policy design for evaluation feasibility	• Can proportionate steps be taken to increase the potential for good evaluation? • What adjustments to policy implementation might improve evaluation feasibility and still be consistent with overall policy objectives?
Defining the audience for the evaluation	• Who will be the main users of the findings and how will they be engaged?
Identifying the evaluation objectives and research questions	• What do policy makers need to know about what difference the programme made, and/or how it was delivered? • How broad is the scope of the evaluation?

Selecting the evaluation approach	• Is an impact, process or combined evaluation required? • Is an economic evaluation required? • How extensive is the evaluation likely to be? • What level of robustness is required?
Identifying the data requirements	• At what point in time should the impact be measured? • What data are required? • What is already being collected / available? • What additional data needs to be collected? • Who will be responsible for data collection and what processes need to be set up?
Identifying the necessary resources and governance arrangements	• How large scale / high profile is the policy, and what is a proportionate level of resource for the evaluation? • What budget is to be used for the evaluation and is this compatible with the evaluation requirements? Has sufficient allowance been built in? • Who will be the project owner, provide analytical support, and be on the steering group? • What will the quality assurance processes be?
Conducting the evaluation	• Will the evaluation be externally commissioned or conducted in-house? • Who will be responsible for specification development, tendering, project management and quality assurance? • When does any primary data collection need to take place? • Is a piloting or cognitive testing of research instruments required? • When will the evaluation start and end?
Using and disseminating the evaluation findings	• What will the findings be used for, and what decisions will they feed into? • How will the findings be shared and disseminated? • How will findings feed back into the ROAMEF cycle?

How to ensure an evaluation meets the requirements: governance and quality control

4.3 Quality control and quality assurance are crucial for any evaluation. Without these, the methods and results from the evaluation cannot be guaranteed to be of sufficiently high standard or fit for purpose. This means the resulting evidence is not robust enough to provide answers to the questions the evaluation was designed to resolve or to reliably inform the decision making process. Quality control can be described as follows:

- quality control ensures that the evaluation design, planning and delivery are properly conducted, conform to professional standards (such as ethical assurance), and that minimum analytical standards are adhered to;
- quality control will be informed by the governance community (e.g. a steering group), other stakeholders, the evaluation team, the manager of the evaluation within the commissioning body, external reviewers, and the commissioned research team where appropriate; and
- quality control will ensure consistency in data collection, methodology, reporting and interpretation of findings.

4.4 Without good quality control, the conclusions of an evaluation cannot be relied upon. Quality control and assurance should therefore be built into an evaluation. This will mean that any weaknesses in methodology, design, data collection and so on can be identified and understood early enough for changes to be made and adverse effects on results or reliability

avoided or reduced. This can be achieved by applying existing departmental quality criteria and processes for research and evaluation, and working closely with government analytical and evaluation specialists. The manager of the evaluation within the commissioning body should take responsibility for applying quality control criteria. The use of external assessors and/or peer review can also be useful and is often standard practice.

4.5 Four particular issues are often critical in managing an evaluation in a way that satisfies quality principles and criteria – ensuring independence, inclusivity, transparency and robustness:

- researcher independence and objectivity are essential for any evaluation. However, this does not automatically necessitate the use of external contractors or keeping the evaluation team at arm's length. This is because close interaction between the research team and policy colleagues while retaining independence and objectivity is important in delivering an effective evaluation;
- inclusion of recipients, delivery bodies or stakeholders – through a steering group, for example – enhances the potential learning from an evaluation and acceptance of its results, but it has to be actively managed as a continuous process of communication and engagement. This is likely to involve: improving awareness of the evaluation; obtaining feedback on research design; and communicating scoping, interim and final conclusions;
- transparency must be a feature of any evaluation but especially for a high-risk or innovative policy intervention. An evaluation plan can set out the evaluation objectives and questions, how the evaluation will be conducted, the timescale and how the findings will be acted upon. In turn, this will facilitate stakeholder engagement, allow the issues and risks to be identified and managed, and the delivery outputs and milestones to be agreed and documented. Evaluation reports should be published and contain sufficient technical detail for others to judge for themselves the robustness of the findings; and
- robustness in research plans and/or the final report is assessed against required analytical standards so that there is an assessment of a) whether the planned research is likely to provide robust evidence to answer the research questions and/or b) that the research findings and conclusions are presented and reported accurately and clearly.

Timing of the evaluation

4.6 Process evaluation is often able to identify when a novel policy is encountering initial difficulties in implementation, and so can be useful in ironing out these types of problems. This might mean that it is desirable for an impact evaluation to occur after a process evaluation, as analysts and policy makers can be more confident that the impact evaluation is measuring the policy itself, rather than the effects of delivery problems. However, this is likely to lead to a longer overall evaluation period. Some process and impact evaluations which follow a new policy as it develops can take years to complete, although useful results will usually be obtained throughout the study as well.

4.7 The timing of the evaluation will also be affected by the outcomes affected by the policy and of particular interest to the evaluation. Some impacts might take some considerable time (e.g. years) to appear, and it might be unfeasibly costly to incorporate these into an intensive process evaluation. An impact evaluation, undertaken some considerable time after the policy was implemented, might be the only feasible option for measuring these impacts, but might then be of less value in affecting the way the policy is implemented or rolled out.

4.8 Retrospective impact evaluations using existing data sources, will not generally suffer from the effects of implementation problems, and can sometimes be undertaken in a matter of weeks. However, the tendency to rely on administrative data will generally limit such an evaluation's ability to provide a rounded explanation of why and how any estimated impact actually occurred. Additionally, the timing of an evaluation might need to be aligned with specific requirements for review. Timetabling is particularly important where the evaluation is intended to inform a Sunset Review as it will need to be completed in time for any renewal or amendment legislation to be enacted (otherwise the legislation will automatically expire).[1]

What types of resources are likely to be needed?

4.9 Any evaluation will require significant input from both analysts and policy makers to ensure it is designed and delivered successfully. This is true for both externally-commissioned evaluations and those conducted in-house. A number of different types of resources will need to be considered and it is important to think early about these, ideally during the policy design process. The types of resources that are likely to be required are shown in Table 4.B.

Table 4.B: Types of resources employed in evaluation

Resource type	Description
Financial resources	A substantial part of the costs of an evaluation may be incurred after the policy has been implemented. Therefore, it is important to think about the financial resources required for the evaluation whilst planning the policy budget. Cost will be substantially lower if data can be used which already exist and/or are being collected through monitoring activities. Data collection exercises might need to be funded if the policy is novel or targeting unusual or hard-to-measure outcomes.
Management resources	Both internal and external evaluations will often require a dedicated project manager (with the specialist technical expertise to assure quality) who is responsible for: commissioning (for external evaluations); day-to-day management; advising the evaluation contractors and reacting to issues that develop. The level of input required will be greatest at key points (in particular, the design and commissioning stage), but this will be an ongoing resource requirement and should not be underestimated.
Analytical support	Due to the multi-disciplinary nature of many evaluations, it is important to consider the range of internal analytical specialists (such as social researchers, economists, statisticians, operational researchers, or occupational psychologists) who might need to be called upon for advice and to help design the evaluation approach and outputs. They can also advise on the effect of policy design on the feasibility of undertaking different types of evaluation. This can help ensure that the evaluation design will provide evidence to answer the research questions, and that, if necessary, appropriately skilled contractors are commissioned. Analytical input can also be useful in the steering of the project and in the quality assurance of outputs.
Delivery bodies	A successful evaluation will often depend crucially on the early and continued engagement and cooperation of the organisations and individuals involved in delivering the policy. It will be important to communicate what the evaluation seeks to address, what input will be required from them, and how they might benefit from the findings.

[1] Further guidance is provided in *Sunsetting Regulations: Guidance*, HM Government, 2011 http://www.bis.gov.uk

Wider stakeholders	The evaluation may also involve other stakeholders – for example, people and organisations directly or indirectly affected by the programme. The level of involvement and method of engagement will be specific to the policy and stakeholders in question, but may include inviting them onto a steering group, informing them about the evaluation, or including them as participants in the research.
Peer review	In order to ensure quality it may be necessary to have aspects of the evaluation peer reviewed. This is a requirement in some central government departments. Peer review might include the methodology, the research tools, and any outputs including interim and final reports.

What level of resource should be dedicated to the evaluation

4.10 Any evaluation needs to be proportionate to the risks, scale and profile of the policy. The feasibility and significance of obtaining robust evaluation findings will also be relevant and there may be certain circumstances where an evaluation is not feasible or appropriate, for example: when the specific policy can be regarded as part of a broader programme and evaluated at a higher level; when a policy is generally unpredictable or is changing; where costs for a full evaluation are prohibitively high; where there is a lack of consensus or clear direction about program goals; or where the evaluation findings won't be used.

4.11 It may also be argued, even for a relatively important intervention, that it is not possible to afford a full evaluation, in line with the recommendations in the Magenta Book. Certainly the guidance on proportionality should be taken seriously – evaluation research should only be carried out to answer questions in which there is genuine interest, and the answers to which are not already known.

4.12 But even after the overall affordability is queried, it is important to consider the opposite question – can one afford not to do a proper evaluation? Skimping on the research can have serious consequences. It is almost certain to be more cost-effective to conduct a robust evaluation, rather than have to repeat an evaluation because it was not adequately resourced. Furthermore, without a solid basis of evidence, there is a real risk of continuing with a programme which has negligible or even negative impact, or of not continuing with a cost-effective programme.

4.13 Judgement therefore needs to be made about the scale and type of evaluation that is required or possible and the trade-offs that this would require, including whether it should be commissioned externally or conducted (either partly or wholly) in-house. Table 4.C presents some of the factors to be considered when determining the level of resourcing required.

4.14 In some circumstances, a scoping or feasibility study may be conducted to support this decision making process. This can provide greater understanding of what can and cannot be evaluated, and therefore what level of investment is required, and can support the development of an appropriate evaluation design.

4.15 If it is still necessary to reduce evaluation budgets, the following additional questions may provide pointers to how this could be done without rendering the evaluation worthless:

- Is it possible to accept increased risk of drawing a false conclusion about the impact/cost-effectiveness of the intervention? Are all stakeholders content to accept the risk?
- Is it necessary to produce results for sub-groups of the targeted population? Or would the overall impact be sufficient? (The risk here is that a programme which works for some people but not all may be judged as ineffective)

- If face to face surveys are planned, could they be replaced with telephone interviews, postal or online surveys, possibly by reducing the amount of data collected?
- How long do outcomes need to be tracked for? Are there proxy or intermediate outcome measures that could be used? What are the risks of shortening the tracking period? (Very often, tracking over a longer period increases the costs.)

Table 4.C: Factors affecting appropriate resourcing of an evaluation

Factor	Explanation
Innovation and risk	High risk policies are likely to require robust evidence to understand both how they are working in practice and whether they are having the predicted impacts. In those cases where the innovative initiatives might offer "low cost solutions" evaluation resources might be "disproportionately" high but are still needed to demonstrate the scale of the returns on the policy investment.
Scale, value and profile	Large scale, high-profile, or innovative policies or policies that are expected to have high impact are likely to require thorough, robust evaluation to help build the evidence base on what works, meet accountability requirements, assess returns on investment and demonstrate that public money is well spent
Pilots	Pilot or demonstration projects, or policies where there is a prospect of repetition or wider roll out, require evaluation to inform future activities.
Generalisability	If it is likely that the findings will have a much wider relevance than the policy being evaluated, more resource may need to be allocated to ensure that the results can be generalised with confidence.
Influence	If the evaluation is capable of providing information which can have a large influence on future policy (for example, it can report at a strategic time-point and/or meet a key evidence gap) more resource is likely to be justified
Variability of impact	The effects of policies with highly uncertain outcomes or with significant behavioural effects are likely to be more difficult to isolate, and there is likely to be a greater case for conducting a more extensive evaluation.
Evidence base	Where the existing evidence base is poor or under-researched an evaluation is likely to require more resources in order to fill the gaps

Concluding remarks

4.16 Part A of the Magenta Book has given an overview of the key issues in policy evaluation, where it fits in the policy cycle, what benefits good evaluation can offer and some of the things to consider when planning and undertaking any evaluation activity.

4.17 Part B is aimed primarily at an analytical audience and therefore more technical, though it will be relevant too for interested policy makers. It covers in more detail some of the issues, challenges and steps to take in planning and undertaking an evaluation, including the setting of an evaluation framework, process and impact evaluation design and approaches to the interpretation and assimilation of evaluation evidence.

Part B

Planning and undertaking evaluations

This part of the Magenta Book is written for analysts and interested policy makers and sets out key issues to be considered when developing, planning and undertaking evaluations. It describes the process of planning an evaluation and the collection of supporting data and sets out the requirements of impact and process evaluations in more detail.

Chapter 5: The stages of an evaluation

Chapter 6: Setting out the evaluation framework

Chapter 7: Data collection

Chapter 8: Process evaluation, action research and case studies

Chapter 9: Empirical impact evaluation

Chapter 10: Drawing together and reporting evaluation evidence

5 The stages of an evaluation

Key points

- There are a number of stages in undertaking an evaluation, involving identifying which questions to ask of the evaluation, which type of evaluation is most appropriate to answer them, and when and how the evaluation should be carried out.
- A first important step is planning the evaluation. This will involve specifying the objectives, timeframes, resource requirements, governance arrangements and terms of reference and should consider how evaluation findings will be used, and by whom, since this will affect how an evaluation is undertaken.
- Using the policy "logic model", which explains how the policy is intended to achieve its objectives, is always recommended for any evaluation. This will help to clearly identify the evaluation objectives and research questions which will direct the evaluation approach, and inform the types of data and information that need to be collected.
- The evaluation objectives and research questions should also guide a review of the existing evidence relevant to the research questions.
- While an evaluation will be planned to answer questions of immediate interest, it should also be capable of having a longer-term strategic influence.

Introduction

5.1 Chapter 5 describes the various stages involved in planning, commissioning and undertaking an evaluation. Considering each of these steps before the evaluation is undertaken will help to:

- identify the information requirements for the evaluation;
- ensure an appropriate evaluation approach is adopted;
- identify key dates and milestones; and
- ensure the quality, transparency and policy relevance of the evaluation findings.

5.2 Evaluation planning is an important part of policy design. However, as policy making and evaluation are often iterative; it may be necessary to review some of the evaluation objectives and questions as the project progresses.

5.3 A summary of the steps to be considered in planning and undertaking an evaluation was presented in Chapter 4 and is represented in Table 5.A. The remainder of this chapter discusses each of the steps in more detail.

Table 5.A: Steps involved in planning an evaluation

Defining the policy objectives and intended outcomes	• What is the programme logic or theory about how inputs lead to outputs, outcomes and impacts, in the particular policy context?
Defining the audience for the evaluation	• Who will be the main users of the findings and how will they be engaged?
Identifying the evaluation objectives and research questions	• What do policy makers need to know about what difference the programme made, and/or how it was delivered? • How broad is the scope of the evaluation?
Selecting the evaluation approach	• Is an impact, process or combined evaluation required? • Is an economic evaluation required? • How extensive is the evaluation likely to be? • What level of robustness is required? • Can proportionate steps be taken to increase the potential for good evaluation? • What adjustments to policy implementation might improve evaluation feasibility and still be consistent with overall policy objectives?
Identifying the data requirements	• What data are required? • What is already being collected / available? • What additional data need to be collected? • If the evaluation is assessing impact, at what point in time should the impact be measured? • Who will be responsible for data collection and what processes need to be set up? • What data transfer and data security considerations are there?
Identifying the necessary resources and governance arrangements	• How large scale / high profile is the policy, and what is a proportionate level of resource for the evaluation? • What is the best governance structure to have in place? • What budget is to be used for the evaluation and is this compatible with the evaluation requirements? Has sufficient allowance been built in? • Who will be the project owner, provide analytical support, be on the steering group? • What will the quality assurance processes be?
Conducting the evaluation	• Will the evaluation be externally commissioned or conducted in-house? • Who will be responsible for specification development, tendering, project management and quality assurance? • When does any primary data collection need to take place? • Is piloting or cognitive testing of research instruments required? • When will the evaluation start and end?
Using and disseminating the evaluation findings	• What will the findings be used for, and what decisions will they feed into? • How will the findings be shared and disseminated? • How will findings feed back into the ROAMEF cycle?

The steps involved in planning and undertaking an evaluation

Step 1 - Defining the policy objectives and intended outcomes

5.4 A first step in evaluation planning is to set out the objectives and intended outcomes of the policy, since this provides a clear framework for subsequent steps, and helps identify exactly what the evaluation should assess. This information might already have been developed as part

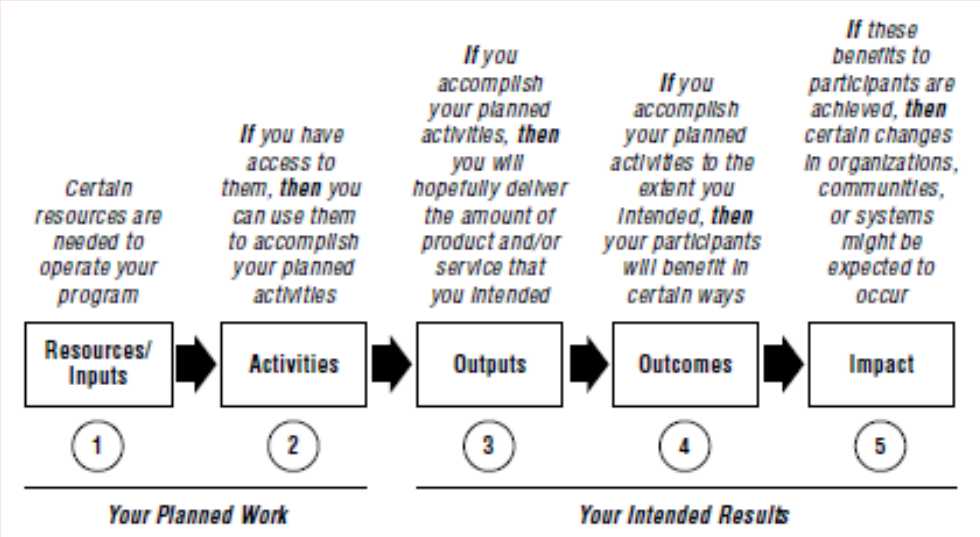
of a policy appraisal (e.g. the Impact Assessment) or the Rationale and Objectives parts of the ROAMEF cycle.

Developing the Logic Model

5.5 A common method for setting out the policy objectives and intended outcomes is to develop a logic model (also known as "intervention logic" or "programme theory"). A logic model describes the theory, assumptions and evidence underlying the rationale for a policy. It does this by linking the intended outcomes (both short and long-term) with the policy inputs, activities, processes and theoretical assumptions.[1]

Box 5.A: Components of a Logic Model

Kellogg Foundation Logic Model



Source: Kellogg Foundation (2004)

5.6 Generally, a logic model will identify the following elements of a policy intervention:

- the issues being addressed and the context within which the policy takes place;
- the inputs, i.e. the resources (money, time, people, skills) being invested;
- the activities which need to be undertaken to achieve the policy objectives;
- the initial outputs of the policy;
- the outcomes (i.e. short and medium-term results);
- the anticipated impacts (i.e. long-term results); and
- the assumptions made about how these elements link together which will enable the programme to successfully progress from one element to the next.

[1] *Logic Model Development Guide,* WK Kellogg Foundation, 2004; The Department for Transport have published a 'Logic Mapping: Hint and Tips guide' as a practical resource to support the logic mapping process: *Logic Mapping: Hints and Tips Guide,* Tavistock Institute for Department for Transport, October 2010, http:/www.dft.gov.uk/

5.7 Setting out the intervention logic model can help to identify clearly the key inputs, and the expected activities, outputs, outcomes and impacts. This is important for a number of reasons, including:

- it can help to guide reviews and collection of existing evidence and data, thereby highlighting areas of deficiency which the evaluation might focus on. Methods for reviewing existing evidence are considered in Chapter 6;
- it can inform the evaluation objectives and development of the research questions;
- it can guide the design of data collection and monitoring processes, so that the right information is available for evaluating the intervention. Data collection is considered in more detail in Chapter 7;
- it can help to identify how the intervention could have unintended consequences, thereby further guiding data collection, the evaluation objectives and the evaluation framework. Unintended consequences are described further in Chapter 6; and
- it provides a transparent assessment framework within which existing evidence and the evaluation results can be combined to provide answers to the evaluation questions.

5.8 There are many ways to produce a logic model (and no necessarily right or wrong approach), but all generally include the elements listed above. Example logic models are described in Chapter 6.

Step 2 – Defining the audience for the evaluation

5.9 To ensure the evaluation provides useful evidence, it is important to consider who the anticipated users of the findings are, and the requirements of policy makers and other stakeholders. These considerations need to be made before the evaluation starts. The findings might be used to:

- support the implementation of the policy;
- inform future decision-making;
- support funding applications;
- improve the ongoing delivery process;
- provide accountability to stakeholders, parliament and the public; and
- contribute to improved knowledge amongst those best able to take advantage of it.

5.10 Thus, when developing the evaluation plan, it is important to understand:

- who the target end-users of the evidence will be. This may include programme managers, policy makers and analysts within the department; other government departments; local authorities and delivery bodies; or key stakeholders including industry bodies, the public, local community groups and other interested parties.
- what are the different expectations for how the results will be used (particularly important for results which may feed back into and affect the ongoing programme delivery) including any expectations on the timing of when the evaluation evidence might feed into decision making;
- what will allow the end users to make most effective use of the evaluation findings. This includes different data requirements, but also presentation of the results, mechanisms for and timing of dissemination. For example, a quantitative cost-

benefit assessment of impacts may be required by HM Treasury, while detailed information about effective delivery may be sought by programme managers responsible for the implementation of the same programme on the ground; and

- how robust the evaluation results need to be to support the uses they are intended for, and what level of scrutiny they will be subject to. A decision to support the potential funding and roll-out of a major government initiative is likely to require a high "burden of proof" and hence an evaluation which meets the highest academic standards. Related to this is whether you expect to use average or marginal effects (see Chapter 10, paragraph 10.15 and Table 10.A for further information). An evaluation which is intended to inform specific and limited changes to the way an existing, local intervention is delivered is unlikely to require the same levels of rigour. However, this might limit the generalisability of the evaluation findings and the extent to which they can be seen to add to the evidence base.

5.11 These considerations are therefore likely to influence the evaluation objectives, research questions and evaluation design. By understanding the range of requirements for the evaluation, the questions can be designed to reflect these and methods can be chosen that generate relevant evidence (Step 3).

Step 3 – Identifying the evaluation objectives and research questions

5.12 The third step in planning an evaluation is to identify the evaluation objectives, and the questions the evaluation will address. The logic model will assist this process by identifying the anticipated inputs, outcomes and impacts. Importantly, the model will also identify theoretical links between inputs and outputs that the evaluation may need to test. When developing the evaluation questions, it is important to assess not only the importance of each question but also how the information will be used. This will help prioritise and determine what is to be evaluated. It will also be necessary to consider what constitutes a proportionate and realistic evaluation given the resources and data available, and what is already known about the policy and its delivery.

5.13 As part of this consideration, when planning the evaluation it is important to decide what the evaluation will add to the existing body of knowledge about what does or does not work. In the case of a new, innovative or pilot policy, this may be fairly obvious. However, in other cases it may be more important for the evaluation to confirm previous results in different contexts, or explore aspects that previous evaluations of similar policies left untouched. In either case, a good understanding of what is already known and the existing evidence base is crucial. If an important question is whether the programme is more effective than similar ones evaluated previously, it will be important to ensure that the evaluation is planned and data collected in such a way as to maximise comparability between the two sets of findings.

5.14 As outlined in Chapter 2, whatever the scope of the evaluation questions, they will normally fall under two broad questions "what difference did the policy make?", or "how was it delivered?" However, it will be necessary to define more specific questions than these; the evaluation questions will be quite specific to the particular policy and logic model. Identifying the evaluation questions is an activity that would normally be undertaken jointly by policy and analytical colleagues. Table 5.B lists a number of issues to consider when developing evaluation questions.

Table 5.B: Issues to consider when developing evaluation questions

What difference did the policy make?	How was the policy delivered?
How will you know if the policy is a success? Which of the outcomes will it be important to assess?	Is it important to understand why the policy does or does not achieve anticipated outcomes?
Do you need to quantify impacts, as well as describe them? How measurable are the various outcomes which might describe the policy's impacts?	Which aspects of the delivery process are innovative or untested?
How complex is the impact pathway/logic model? How important is it to control for confounding factors?	Is it important to learn about uptake, drop-out, attitudes etc.?
What were the impacts for the target group? Do you need data on average or marginal impacts?	What contextual factors might affect delivery (e.g. economic climate, other policy measures, etc.)?
Were there different impacts for different groups?	What process information would be necessary, or useful, for any planned impact evaluation?
How developed is the existing evidence base? Could it enable the scope of the evaluation to be restricted to those areas, impacts or processes where knowledge is most uncertain?	What were the experiences of service users, delivery partners, staff and organisations?
How should the costs and benefits of the policy be assessed? How do the outcomes contribute to social wellbeing, and how do they generate costs?	How complete are current data collection processes? Are the issues to be considered likely to need tailored data collection?
What longer term or wider knock-on effects should be considered? How will you know whether there were any unintended effects?	How was the policy delivered?

Step 4 - Selecting the evaluation approach

5.15 There are a variety of approaches to evaluation, which differ in a number of respects. These include the analytical techniques they adopt, the types of data they use, and the nature of the results they generate. Box 5.B provides a brief description of some of these broad approaches. These categories are not necessarily distinct; however each can comprise a number of different approaches.

Box 5.B: Types of evaluation

Process evaluation

Process evaluations can use a variety of qualitative and quantitative techniques to explore how a policy was implemented describing the actual processes employed, often with assessments of the effectiveness from individuals involved or affected by the policy implementation. Further discussion appears in Chapter 8.

Empirical impact evaluation

Empirical impact evaluations use quantitative data to test whether a policy was associated with any significant changes in outcomes of interest. Various approaches are available which differ in their ability to control for other factors which might also affect those outcomes (the counterfactual, either directly measured or imputed) and hence in the confidence it is possible to place in the results. Empirical impact evaluation is discussed further in Chapter 9.

Economic evaluation

Economic evaluation involves calculating the economic costs associated with a policy, and translating its estimated impacts into economic terms to provide a cost-benefit analysis. (When only a costing exercise is undertaken, the result is a cost-effectiveness analysis.) Economic evaluations will often make use of existing evidence and assumptions to facilitate the translation of inputs and actual measured outcomes into economic measures, making them akin to theory-based evaluations (see below). The HM Treasury Green Book provides detailed guidance on economic evaluation and cost-benefit analysis.

Theory-based evaluation

Theory-based evaluation approaches involve understanding, systematically testing and refining the assumed connection (i.e. the theory) between an intervention and the anticipated impacts. These connections can be explored using a wide range of research methods (both qualitative and quantitative), including those used in empirical impact evaluation. More information is provided in Chapter 6.

Meta-evaluation and meta-analysis

Meta-evaluations (covered in more detail in Chapter 6) can use quantitative or qualitative techniques to bring together a number of related evaluations to derive an overview or summary conclusion from their results.

Simulation modelling

Simulation modelling is one way in which the results of different evaluations of separate parts of the impact pathway or logic of an intervention can be combined and requires that the evidence relating to the different links in the logic model are expressed in quantitative terms (e.g. effect sizes). Chapter 6 provides more information.

5.16 The choice of evaluation approach will depend on a number of factors, some of which are considered in Table 5.C. The exact evaluation approach will generally be developed by analytical colleagues, and/or recommended by an evaluation contractor (for externally commissioned evaluations) or other evaluation expert. However, having a clear idea about the required type of evaluation at the planning stage will help inform its design and ensure this meets the evaluation requirements. This will greatly aid decisions about the scope and scale of the evaluation, development of the specification, and the external expertise required.

5.17 There are therefore a wide range of evaluation approaches which will be more or less suitable to the specific evaluation questions and context. Process evaluation is discussed in more detail in Chapter 8 and experimental and quasi-experimental impact evaluation approaches are discussed in Chapter 9. Systematic review, meta-evaluation, theory-based approaches and simulation modelling are discussed in Chapter 6.

Box 5.C: Issues affecting the choice of evaluation approach

Evaluation objectives and research questions

The overall objectives of the evaluation and the specific research questions it needs to answer are important factors in deciding which evaluation approach(es) to use and should be developed from the logic model. General research questions which are not overly specific to the intervention in question might be answerable via a qualitative review (or more formal analysis) of the existing literature. Questions which are more specific to the intervention will involve one of the other evaluation types listed in Box 5.B. Questions relating to the wider or ultimate objectives of an intervention will generally require some form of impact evaluation – possibly as part of a theory-based evaluation approach if the associated impact pathways are very extended or complex. Questions relating to detailed aspects of the workings of the policy will generally imply some form of process evaluation (although a combined impact evaluation might be warranted if more definitive answers about effectiveness are required).

Complexity of the logic model and importance of confounding factors

Where the logic model is particularly complex, restricting the scope of the evaluation to consider shorter, simpler "links" in the logic chain can increase the ability of process evaluations to provide good evaluation evidence. However, if significant confounding factors remain, a robust impact evaluation with suitable controls might be necessary to generate reliable findings. The feasibility of this might depend on data availability (for quasi-experimental approaches) and time and resources (for approaches needing dedicated data collection). Detailed evaluation of changes in very complex systems (especially those with a significant geographical component) might only be possible through theory-based evaluation or simulation modelling.

Availability and reliability of existing evidence

Large amounts of strong existing evidence increase the relevance of review based methodologies, facilitate greater use of simulation models, and enable evaluations to be simplified to focus more closely on those specific questions which the current evidence base leaves unanswered.

Existing data sources and measurability of outcomes

If there is already a wide range of good quality data sources covering outcomes of interest, the feasibility of undertaking robust impact evaluations (sometimes to relatively short timescales) is greatly increased. Outcomes which are difficult to measure require either dedicated data collection (e.g. through surveys) or a way of estimating them from changes in intermediate indicators. The former implies a more resource- and time-intensive study, as does a lack of existing data (which might be the case particularly when the focus of the evaluation is the specifics of a very localised intervention). The latter might be addressed through a simulation model, subject to existing data availability.

Time and resource availability

In most cases, process evaluations (including action research and case studies) will require a formal commission and a dedicated research team, often externally contracted. This can imply a considerable time and resource commitment. Impact evaluations requiring specific data collection and outcome measurement can similarly involve heavy resource commitment and long project durations. Impact evaluations which are able to use existing datasets can provide rigorous results in relatively short timescales but this same reliance on existing data can restrict the questions they can attempt to answer and, in some cases, the ability to confidently attribute the impacts to the intervention. Simulation models can also sometimes be undertaken relatively quickly but this depends on a range of assumptions being made to limit their scope.

Empirical impact evaluation issues

The two principal strengths of empirical impact evaluation approaches are that they can isolate the effect of an intervention from the possible multitude of factors which might have an influence on the outcome of interest; and in this way, they can provide a rigorous test of whether the intervention has an effect or not. However, these strengths can come at a cost. That is that the approaches are often less able than other approaches to explain exactly why any difference occurred (or not), or how it varied across circumstances.[2] Much of this can (and should) be overcome by using a mixed design, whereby process and impact evaluations complement each other, and the process evaluation can help to explain the impact evaluation findings.

In other cases based on statistical regression analysis the relationship between the intervention and the outcome of interest might be so complex that the evaluation will only be able to say whether the intervention had an effect, not what aspects of it, how or why. Some "procedural" explanation might be possible, but only if the scope of the evaluation is restricted to simpler relationships, for instance, between the intervention and some intermediate outcome rather than the ultimate objective of the intervention (e.g. the impact of the intervention on the take up of training, rather than the impact on employment and wages).

Step 5 – Identifying the data requirements

5.18 A good evaluation relies on good quality data. The evaluation questions will determine what data need to be collected, and when. This may be new data but will often also include monitoring data, that is, information collected and used as part of the ongoing policy delivery, describing the principal policy inputs and outputs (e.g. training sessions provided and completed). (For more information on planning and collecting monitoring data, see Chapter 7.)

5.19 Data requirements may also include data collected specifically for the evaluation through specially commissioned surveys and interviews with participants and frontline workers, and covering the details of the way the policy has been implemented. Evaluations of large scale policies might well also use data which already exist or are being collected for other purposes,

[2] Regression-based analysis of data obtained from randomised control trials might be able to provide some explanation of how an observed impact varies across subjects, but is still limited in its explanatory power, and subject to the other weaknesses of the counterfactual impact evaluation approach.

for instance relating to local and regional economic conditions and performance (e.g. sectoral unemployment rates).

5.20 The specific data required for an evaluation will relate to the inputs, outputs, outcomes and impacts of the policy, and when these are expected to manifest. These will have been identified in the first step of planning the evaluation. Data collection processes will reflect the nature of the outcomes in question – outcomes which are unusual (e.g. impacts on individual economic wellbeing) or very specific to the intervention are likely to require special measurement through, for instance, dedicated surveys. Evaluation data may also relate to information about how the various elements of the policy are linked together, the actual delivery process and timescales.

5.21 Data collection will often need to commence before the policy is actually implemented, in order to ensure that the situation before the policy can be captured (also known as the "baseline"). Planning for data collection will obviously need to take place before this and so should be considered as early as possible. The timing of the data collection also needs to be considered carefully – eventual impacts of a policy may take many years to materialise, which are likely to be too distant to be collected as part of an evaluation project. In such cases it may be important to build in collection of data related to intermediate or proxy outcomes which can be used to measure impact in a shorter timeframe. These outcomes might then be "translated" into final outcome measures using the logic model framework.

Step 6 – Identifying the necessary resources and governance arrangements

Securing Resources

5.22 As set out in Part A of the Magenta Book, an evaluation should be proportionate to the scale, risk and profile of the policy, and the extent of the existing evidence base related to the effects of the policy and/or delivery process. Judgements need to be made about the scale and form of evaluation that is required for a particular policy, including whether it should be commissioned externally or conducted (either partly or wholly) in-house. Having a clear idea about the available resources for the evaluation will also influence selection of the most appropriate evaluation approach.

5.23 In some circumstances, it may be useful to undertake a scoping or feasibility study to support this decision making process and assess whether particular evaluation methods are possible. This can foster greater understanding of what can and cannot be evaluated, and therefore what level of investment is required, and can support the development of an appropriate evaluation design. It is also important to consider whether an evaluation requires external evaluators in order to ensure objectivity and transparency. Chapter 4 provides more detail on the factors that should be taken into account when deciding how much resources should be dedicated to an evaluation.

5.24 Evaluations, whether conducted internally or commissioned to an external contractor, will often require significant input to ensure they are designed and delivered successfully. For larger evaluations involving dedicated data collection, this will generally require an appropriate internal project manager with the relevant skills to oversee the evaluation, a senior responsible owner (SRO) or project director, and a steering group to govern the evaluation (Table 5.C).

5.25 The level of input required of different members of the project team will be greatest at key points (in particular, the design, commissioning and reporting stage), but there will be an ongoing resource requirement even if the project is externally commissioned and this should not be underestimated.

Table 5.C: Examples of typical evaluation governance responsibilities

Internal project manager	Senior Responsible Owner/ Project Director	Steering group
Drafting a project specification	Ensuring appropriate resources are committed to the evaluation	Ensuring delivery of a high quality and policy-relevant evaluation
Obtaining any necessary data security clearance	Ensuring the information necessary for the evaluation is collected and made available to the evaluators	Providing advice on how to proceed in the event that circumstances change
Commissioning (if appropriate)	Ensuring the relevant policy makers and analysts are prepared to engage in setting the evaluation questions, contribute to the design of the evaluation methods and interpretation of its results, and take custody of its findings and conclusions	Facilitating the work of external evaluators
Day-to-day management, including management of risks		Providing access to information and contacts
Ensuring the evaluation stays on track, meets its objectives, is on time and is delivered within budget		Quality assuring the research design and suggesting evaluation questions, methods and research tools
Advising any contractors and reacting to issues that develop		Assisting in the analysis and interpretation of the emerging evidence
Quality assuring or arranging for quality assurance of intermediate and final products (e.g. project design, research instruments, final reports and presentations)		
Ensuring the findings are fed back to the relevant audience		

Step 7 – Conducting the Evaluation

5.26 Once the policy objectives, intended outcomes, evaluation approach, and data and governance requirements have been established there are a large number of ongoing project management decisions and tasks to be undertaken to ensure that the evaluation is delivered effectively. Typical considerations might include (see also Table 5.C above):

- deciding whether the evaluation be externally commissioned or conducted in-house;
- developing a specification for the evaluation – see below;
- tendering the evaluation, including agreeing the nature and price of any contract with an external provider;
- providing day to day project management support;
- advising any contractors and reacting to issues that develop;
- identifying project risks and mitigating actions;
- budget management;

- agreeing when any primary data collection needs to take place;
- ensuring appropriate quality standards are met;
- deciding whether or not piloting or cognitive testing of research instruments is required;
- agreeing input to and overseeing quality assurance of evaluation processes and products, for example field work activity, research instruments, data set preparation (e.g. cleaning and weighting), data analysis, presentations or reports;
- ensuring any baseline data is collected;
- agreeing when the evaluation will start;
- agreeing and ensuring delivery against key milestones;
- reporting back to stakeholders and steering groups; and
- agreeing when the evaluation will end.

Defining the Project Specification

5.27 As part of the evaluation planning process a project specification (or terms of reference) for the evaluation should be developed. This should cover the scope and objectives of the evaluation, as well as how it will be conducted, governed and managed, and the delivery of the required outputs.

5.28 The exact content will need to be determined by the evaluation commissioner and/or project manager, and will also need to follow existing departmental procedures and guidance for commissioning and managing research and evaluation. However, it is suggested that the following should be included:

- the background, rationale and objectives of the policy to be evaluated, its target recipients, delivery method and intended outcomes;
- the extent of the existing evidence base related to the policy;
- the evaluation objectives and research questions;
- the audience and intended use of the evaluation;
- the available information, for example monitoring data collection processes already set up;
- the possible evaluation approach, research design and methods;
- the required capabilities, skills and experience of the proposed evaluation and team;
- the required evaluation outputs (including datasets) and the milestones to be met;
- data archiving requirements;
- the indicative budget (if being commissioned externally and consistent with departmental, or other, procurement protocols); and
- the evaluation timetable.

Step 8 – Using and disseminating the evaluation findings

5.29 At the time of planning an evaluation it is a good idea to give some thought to how the findings will be used and disseminated. Different departments will have their own protocols and local arrangements which should be followed.

5.30 As well as taking into account the publication process it is important to consider how findings will be presented and to whom. For example whether there will be one long report, an executive summary, a technical report, and/ or presentations. If you are externally-commissioning the evaluation you will need to specify the format of the report and any presentations at the time of commissioning.

5.31 It is also important to consider how findings will be fed back into the policy process to influence future decision making. In summary, it is important to properly plan an evaluation in advance in order to ensure that it meets the required objectives, collects robust evidence which can answer the specific policy questions, and the findings are disseminated and accessible to the relevant audiences. The remaining chapters in Part B describe evaluation design in more detail.

6 Setting out the evaluation framework

Key points

- The evaluation of an intervention requires a framework within which the evaluation can be designed, data analysed and results interpreted. This framework will generally be based on the intervention's logic model and decisions made about the evaluation objectives.
- Developing the logic model enables the assumptions, processes, impacts and outcomes (both intended and unintended) of the intervention to be identified and articulated, which in turn helps to identify the evidence required to answer the evaluation questions.
- Reviewing existing evidence relating to the broad evaluation questions is important for enabling the objectives of any new evaluation research to be identified and refined. Systematic review, rapid evidence assessment and meta-evaluation are approaches to assessing existing evidence.
- Many evaluations of complex interventions or impact pathways will require a theory-based evaluation framework which seeks to triangulate evidence from multiple sources to test and refine the assumptions made in the logic model. Within this framework the evaluation could draw on evidence gathered through process evaluations and counterfactual impact evaluations as well as using analytical techniques, such as simulation modelling.
- Simulation models can be used to combine existing and new evidence to answer the evaluation questions, but can be subject to some uncertainty due to the need to make assumptions about how the different pieces of evidence are related.

Introduction

6.1 Establishing a framework for the evaluation provides a consistent and systematic means to designing the evaluation, collating and analysing the existing evidence and the new data created, and generating and interpreting the results. It can be used to understand what existing evidence tells us and to identify those gaps in the evidence base which the evaluation should focus on. As suggested in Chapter 5, the evaluation framework is most likely to be based on some form of logic model. This chapter provides more detail on logic models, and how they can be used and developed into a theory-based approach. It also considers some of the techniques which can be used to review and evaluate existing evidence.

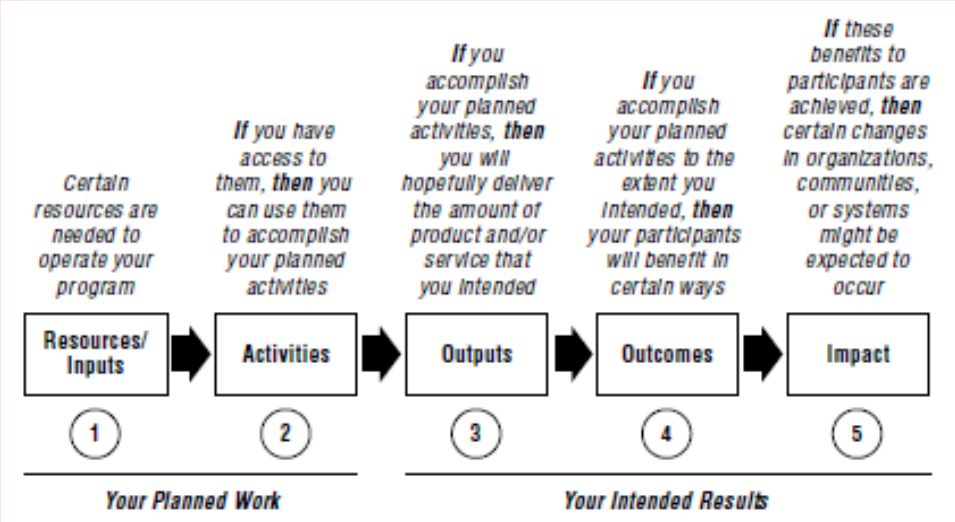
6.2 Even if there was a significant body of evidence and experience on which to draw, the rationale for an intervention will have been based to some extent, and in certain aspects, on assumptions about how the inputs will cause the intended outcomes and impacts and what other contextual factors will influence this. These assumptions and the evidence on which they were based can be set out formally in a structured "logic model", which can provide the framework within which the impacts of the intervention can be evaluated and (if appropriate) quantified.

6.3 A logic model describes the causal pathways underlying the rationale for a policy. It does this by linking the intended outcomes (both short and long-term) with the policy inputs, activities, processes and theoretical assumptions. Box 6.A presents the simple Kellogg Foundation logic model, and provides definitions (with examples) of its various components.

Box 6.A: Logic models and the terms they use

A logic model describes the theory, assumptions and evidence underlying the rationale for the programme . . . "*it links outcomes (both short and long-term) with programme activities/processes and the theoretical assumptions/principles of the programme*."
Source: WK Kellogg Foundation (2004)[1]

Kellogg Foundation Logic Model



Term	Definition	Example
Inputs	Public sector resources required to achieve the policy objectives	Resources used to deliver the policy
Activities	What is delivered on behalf of the public sector to the recipient	Provision of seminars, training events, consultations etc.
Outputs	What the recipient does with the resources, advice/ training received, or intervention relevant to them	The number of completed training courses
Intermediate outcomes	The intermediate outcomes of the policy produced by the recipient	Jobs created, turnover, reduced costs or training opportunities provided
Impacts	Wider economic and social outcomes	The change in personal incomes and, ultimately, wellbeing

6.4 Developing the logic model can be done as a desk exercise, based on a review of policy documentation such as the Impact Assessment, business case or project initiation documents. It may also be developed using previous evaluations and evidence about particular aspects of the inputs, activities, outputs, outcomes and impacts. It might draw on relevant theoretical and empirical frameworks describing the (different links of the) model's impact pathways. Examples could include economic models of individual market behaviour, bio-physical models of the

[1] *Logic Model Development Guide,* WK Kellogg Foundation, 2004

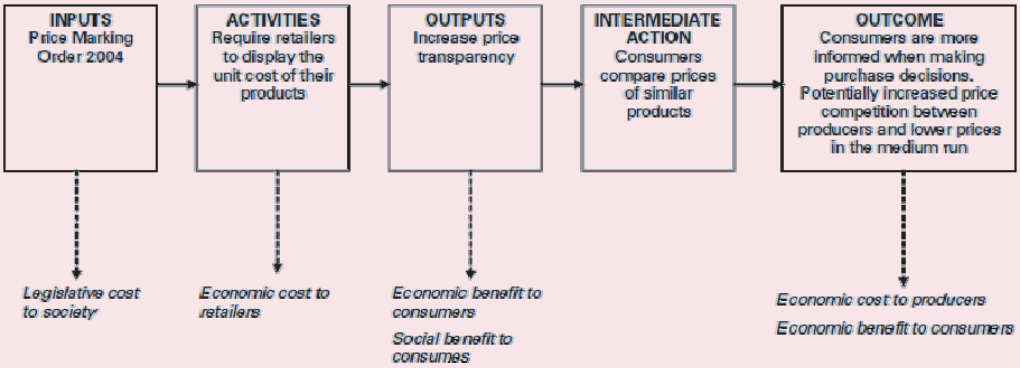
impact of air pollution on the environment, and inter-disciplinary models of how changes in health status affect social and psychological wellbeing. Some examples of logic models are provided in Box 6.B which demonstrates that they can be formulated in different ways, albeit around the same basic structure.

Theory-based evaluation

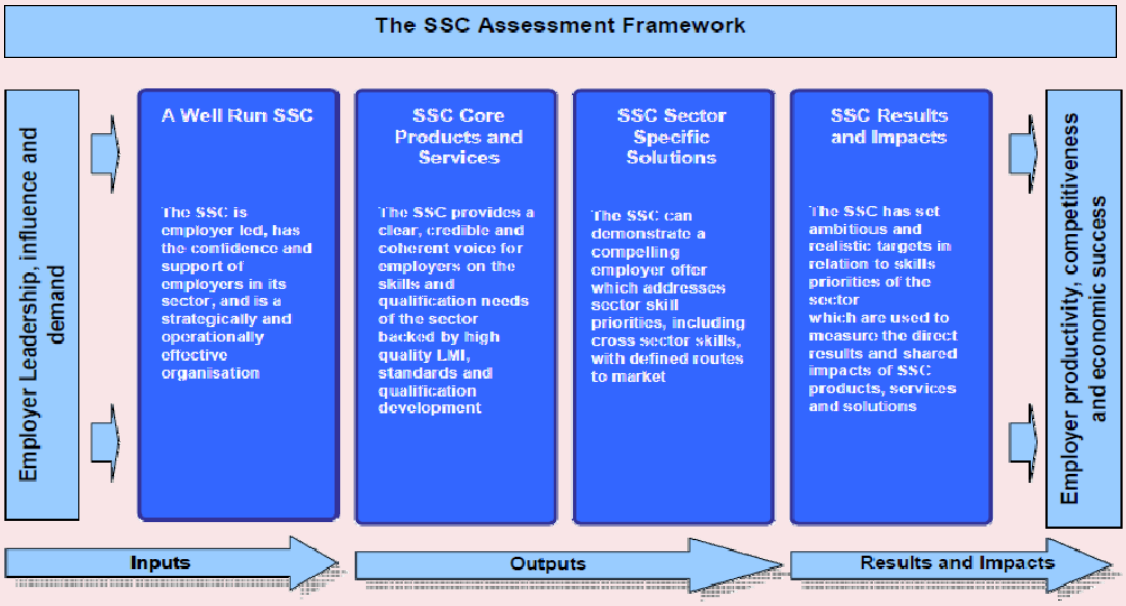
6.5 The examples presented in Box 6.B show that, with different levels of detail, logic models seek to explain how the linkages work between the stages of the logic model as well as simply stating what they are. This is an important feature of an effective logic model, namely that it is a representation of the causal theory underlying the impact and any associated intervention – i.e. the understanding about why something occurs and how an intervention might work. Logic models such as this are therefore an important component of the general class of evaluation approaches called "theory-based evaluation".

Box 6.B: Examples of logic models

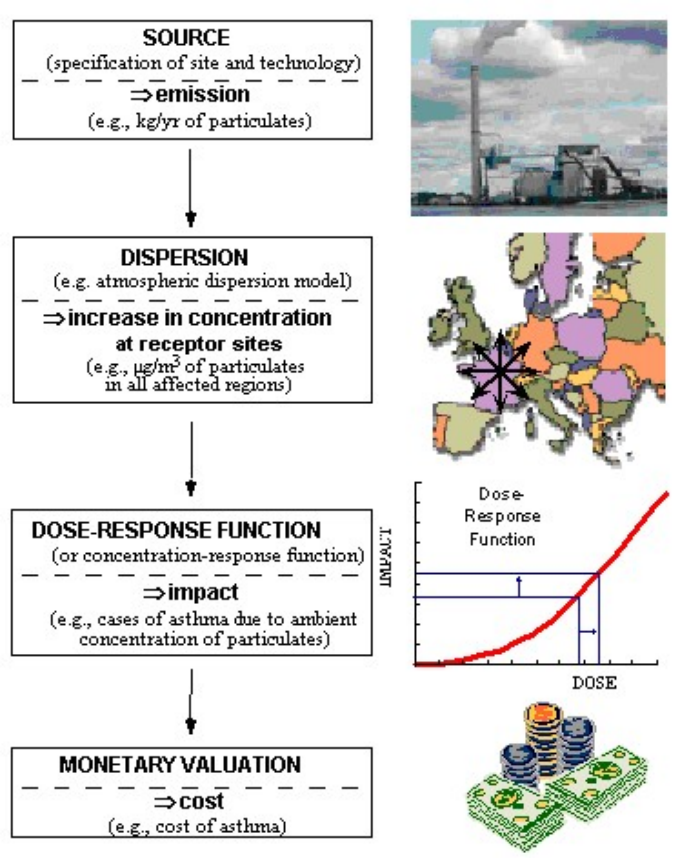
Logic Model for the Price Marking Order 2004



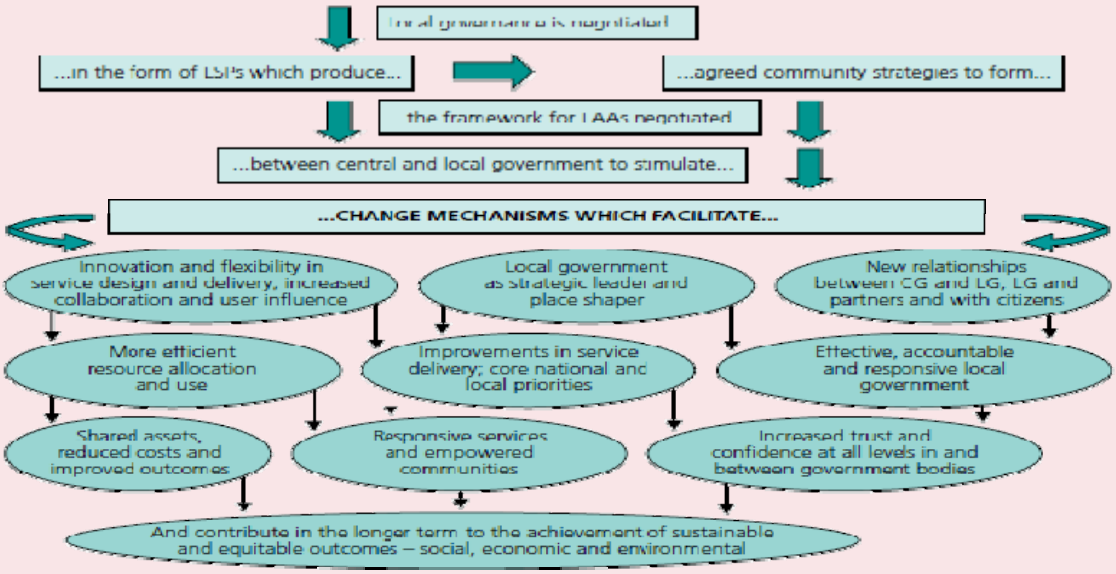
Logic model for the Sector Skills Councils



Impact pathway for the health costs of air pollution



Logic model for Local Area Agreements and Local Strategic Partnerships



Source: Department for Trade and Industry (2008), UK Commission for Employment and Skills (2009), Department for Communities and Local Government (2008), Externe[2]

[2] *The Impact of Regulation: A pilot study of the incremental costs and benefits of consumer and competition regulations,* Department of Trade and Industry, 2006,; *SSC Performance Management Handbook,* UK Commission for Employment and Skills, 2009; *Long Term Evaluation of Local Area Agreements and Local Strategic Partnerships: Developing a 'Theory of Change',* Department for Communities and Local Government, 2008; ExternE – Externalities of Energy: A Research Project of the European Commission (http://www.externe.info/)

6.6 Theory-based evaluation approaches provide an overarching framework for understanding, systematically testing and refining the assumed connections (i.e. the theory) between an intervention and the anticipated impacts.

6.7 The focus of theory-based evaluations is not only on understanding whether a policy has worked, but why, and under what conditions a change has been observed. Theory-based evaluation will therefore generally seek to identify each of the various elements in the underlying logic model, and examine the links between each element. This process is intended:

- to identify clearly the key inputs, and the expected activities, outputs, outcomes and impacts;
- to articulate how inputs are expected to lead to outputs, outcomes and impacts, and the links and processes in place. These are sometimes called "impact pathways";
- to identify the assumptions about how the policy will be delivered, and any additional factors which need to be in place for the policy to succeed;
- to provide a transparent assessment framework for the evaluation to inform the scope, purpose and data requirements of the evaluation; and
- to inform the evaluation objectives and development of the research questions.

6.8 Evaluations of policy issues and interventions within social settings will generally be based on theories of how individuals, groups, organisations and institutions will respond to the intervention given the context in which it is implemented. Three types of theory-based evaluation approach are commonly used in the evaluation of government social policy. Two of these – Theory of Change and Realist (also known as Realistic) Evaluation – are described in Box 6.C below. Box 6.D provides an example of a theory-based evaluation.

Box 6.C: Theory of Change and Realist Evaluation

Theory of Change Evaluation

Theory of Change evaluation is a systematic and cumulative study of the links between activities, outcomes, and context of a policy intervention. It involves the specification of an explicit theory of "how" and "why" a policy might cause an effect which is used to guide the evaluation. It does this by investigating the causal relationships between context-input-output-outcomes-impact in order to understand the combination of factors that has led to the intended or unintended outcomes and impacts. Theory of Change therefore normally develops and tests, the implementation theory of the policy and allows this to be modified or refined through the evaluation process. A range of research methods, often both quantitative and qualitative, can be used in order to gather data that contribute to this task. The evaluation often leads to a map showing which factors at which levels have combined to produce the observed outcomes, building on the logic model for the policy.

Realist Evaluation

Whilst Theory of Change tests implementation theory, Realist Evaluation seeks to identify those – often psychological – triggers that change human behaviour as a result of an intervention, taking into account the context within which the intervention sits. Realist Evaluation typically asks: "what works, for whom, under what circumstances?" It begins by developing a set of hypotheses (or theories) on those factors or processes that explain why an intervention has had a particular result (called a mechanism), and what effect the context of an intervention has on these mechanisms. A mechanism can be defined as capturing "people's reasoning and their choices. They describe how people react when faced with a policy measure".

Source: DfT (2010); Befani B et al (2007)[3]

Box 6.D: Using Theory of Change to evaluate investment in cycling

The Department for Transport has commissioned an evaluation of investment in initiatives aimed to increase cycling in 12 areas across England. This employs a Theory of Change evaluation approach, to assess the impacts of investment and also to learn about what works, how, and why in enabling behaviour change. Each local area has developed investment strategies in response to local need and contextual circumstances. The holistic nature of the approach enables it to test the complex causal relationships involved in changing travel behaviour.

The evaluation is seeking to triangulate evidence to strengthen conclusions about the impacts which can be attributed to the investment programme. The evaluation draws on a quantitative assessment of behaviour and attitudinal change, objective monitoring of cycling trends, analysis of cycling behaviours in comparator areas, qualitative insight into the motivators and barriers to behaviour change, an understanding of the effectiveness of different types of initiatives in overcoming these barriers, an assessment of the role of wider national and local contextual factors and an analysis of the design and delivery processes to identify the barriers and enablers to successful implementation.

Source: Department for Transport (2011)[4]

6.9 The third commonly used theoretical framework for modelling the effects of social policy is the economic model. This model emphasises the role of choices and incentives in driving behaviour of individuals and organisations. Colleagues from the Government Economic Service can provide assistance in developing logic models and evaluation frameworks which incorporate economic principles. The Treasury Green Book can also provide guidance on developing economic evaluations.

6.10 Theory-based evaluations seek to systematically test and refine the underlying logic model. As Box 6.B demonstrated, these logic models are often highly complex, and evaluations based on them will often need to consider large numbers of relationships, and significant quantities of

[3] *Guidance for transport impact evaluations: choosing an evaluation approach to achieve better attribution*, The Tavistock Institute for the Department for Transport, 2010, http://www.dft.gov.uk/; *Realistic Evaluation and QCA: Conceptual Parallels and an Empirical Application*, Befani, B et al, 2007, Evaluation, Vol. 13 No 2, p. 178

[4] *Evaluation of the Cycling City and Towns Programme,* AECOM, the Centre for Transport and Society, and the Tavistock Institute for the Department for Transport, January 2011, http://www.dft.gov.uk/

diverse existing evidence and data, including evidence gathered through (existing and new) process evaluations and counterfactual impact evaluations.[5]

6.11 Theory-based evaluation approaches provide the overarching conceptual framework within which specific evaluation studies can be designed and evidence structured to answer the policy questions which are being posed. They are therefore complementary, rather than an alternative, to primary process and impact evaluation studies, which provide new data and evidence which can then be incorporated into the evaluation framework as appropriate. One practical way in which this can be done with quantitative evidence and data is through simulation models (see below).

Assessing wider effects and unintended consequences

6.12 A policy might have wider impacts, such as knock-on or multiplier effects[6] in the local economy.[7] Developing the logic model of the intervention and considering the various stages in which it is intended to operate provides an opportunity to consider the wider or additional effects of the activity. These can then be incorporated into the evaluation as appropriate.

6.13 There might also be effects which are recognised as possible but not definite outcomes of the policy, and which evaluations will also need to look for. They could be harmful or beneficial and might be generated amongst those directly targeted by an intervention or more widely for others indirectly affected by the intervention. Table 6.A presents examples of potential unintended effects.

Table 6.A: Examples of potential unintended effects

Effect	Definition	Example
Displacement	Positive outcomes promoted by government policy are offset by a negative outcome of the same policy elsewhere.	The displacement of crime from one area, where a crime reduction policy is being implemented, to a bordering area.
Substitution	The effects of an intervention on a particular individual, group or area are only realised at the expense of other individuals, groups or areas.	An employer appointing a jobless person from a government scheme, rather than a standard applicant, in order to secure a recruitment subsidy.
Leakage	The policy benefits others outside the target area or group.	Jobs generated in a target area are taken by those who live outside it.
Deadweight	The policy supports outcomes which would have occurred anyway.	An employer receives a subsidy to take on workers who were going to be appointed anyway.

6.14 A policy might also result in other effects that are completely unanticipated, generally termed "unintended consequences". These often result from perverse incentives which are established as a result of interaction between the way the policy works and existing processes. Box 6.E provides examples of unintended consequences and sources of further information.

[5] For more information on theory-based evaluations, see *Guidance for transport impact evaluations: choosing an evaluation approach to achieve better attribution*, The Tavistock Institute for the Department for Transport, 2010, http://www.dft.gov.uk/

[6] Further economic activity (jobs, expenditure or income) associated with additional local income and local supplier purchases as a result of the intervention.

[7] For more information see: *Additionality Guide,* English Partnerships http://www.thesroinetwork.org/component/option,com_docman/task,doc_view/gid,30/, *Research to improve the assessment of additionality,* Department for Business, Innovation and Skills, October 2009, http:/www.bis.gov.uk/; *wider economic benefits in transport appraisal, Department for Transport* http://www.dft.gov.uk/; and http://www.hm-treasury.gov.uk/green_book_guidance_regeneration.htm

Box 6.E: Examples of unintended consequences

The effects of licence plate rationing in Mexico

The most extensive and objective documentation of the long-term impacts of licence plate rationing was found for Mexico City. It was found that there was no sustained improvement in air quality, no increase in subway ridership, and worsening air quality on weekends and other times outside of the rationing scheme.

Modal shift in travel patterns was primarily to taxis and small buses rather than to subways, offsetting any improvements likely to be achieved by reductions in car travel. Demand for petrol went up after two months of implementation, and Mexico City became a net importer rather than net exporter of used vehicles from the rest of the country. The inference was drawn that residents evaded the restrictions by becoming multi-vehicle households (with variably coded licence plates) and acquiring older (and less fuel efficient and more polluting) vehicles from the countryside.

Source: Cambridge Systematics (2007)[8]

The impact of funding incentives on fire prevention

The 2002 Bain Review pointed out a perverse funding incentive that saw the fire authorities dealing with the most fires get the most money. This, along with the tiny amount of funding allocated to fire safety work, did little to raise the profile of community fire safety at a local level. In parallel with Bain's report, work was being done to change the funding model, and from April 2003 the number of fires, false alarms and special calls was removed from the formula. This abolished the perverse incentive that had discouraged a greater focus on fire prevention.

Source: Department for Communities and Local Government (2008)[9]

Further examples are available from: *Additionality Guide,* English Partnerships, (http://www.thesroinetwork.org/component/option,com_docman/task,doc_view/gid,30/), *Research to improve the assessment of additionality,* Department for Business, Innovation and Skills, 2009 (http://www.bis.gov.uk/) and *Wider economic benefits in transport appraisal, Department for Transport*, (http://www.dft.gov.uk/)

Reviewing the existing evidence

6.15 The first stage in populating the evaluation framework should be to establish what is already known about the intervention to be evaluated or what can readily be learned about it. This first stage is important for at least four reasons:

- it may be that there is already sufficient evidence on the likely effectiveness of an intervention so that further primary evaluation is unnecessary;
- it is more likely that the existing evidence may be ambiguous, inconclusive, or of uncertain quality indicating that further evaluation is necessary and that specific aspects of the policy intervention in question need addressing;
- any single evaluative study may illuminate only one part of a policy issue, implying that it might be appropriate to focus an evaluation on specific aspects of the evidence base where existing information is lacking; and

[8] *Congestion Mitigation Commission Technical Analysis: License Plate Rationing Evaluation for the New York City Economic Development Corporation and New York City Department of Transportation,* Cambridge Systematics, 2007

[9] *Safer Houses: Celebrating 20 years of fire prevention in the home*, Department for Communities and Local Government, 2008

- existing findings may be sample, time or context specific. This will make it difficult to establish the generalisability and transferability of findings from the existing research evidence which, in turn, will influence what requires evaluating.

Systematic review

6.16 Establishing what is already known about a policy intervention presents a major challenge for knowledge management. In the first place, the sheer amount of potential research evidence makes it almost impossible to keep abreast of the research literature in any one area. Second, research and information is not of equal value. Some way of differentiating between high and lower quality studies, as well as relevant and irrelevant evidence, is required.

6.17 Systematic review is a tool which can be characterised by:

- a clearly stated set of objectives with pre-defined eligibility criteria for studies;
- an explicit, reproducible methodology;
- a systematic search that attempts to identify all studies that meet the eligibility criteria;
- a formal assessment of the validity of the findings of the included studies; and
- a systematic presentation, and synthesis, of the characteristics and findings of the included studies.

6.18 Systematic reviews therefore differ from other literature reviews by following an explicit protocol for identifying and assessing relevant studies. For instance, the protocol might specify what reference databases were searched, what search terms were used, and what criteria were used to filter studies and select those for detailed review. In general, the review of those studies which are selected will be qualitative (although systematic review can be combined with other evaluation techniques, such as meta-analysis). The basic principles of systematic review are set out in Box 6.F.

6.19 The Campbell Collaboration (http://www.campbellcollaboration.org) provides extensive guidance on undertaking systematic reviews. The Centre for Evidence-Informed Policy and Practice in Education (the EPPI-Centre) (http://eppi.ioe.ac.uk/) at the Institute of Education undertakes and commissions systematic reviews in education, and is developing methods for undertaking systematic reviews of social science and public policy research. The Economic and Social Research Council (ESRC) has established an Evidence Network (http://www.evidencenetwork.org).

Box 6.F: The principles and practice of systematic review

Defining an answerable question

A systematic review should address a question that clearly specifies the interventions, factors or processes of interest, the population and/or sub-groups in question, the outcomes that are of interest and the context in which they are set. The question needs to distinguish whether the interest is in the outcome of an intervention or in the implementation of a policy.

An example of an answerable question about a policy intervention might be: What is the effect of a personal adviser service (intervention) in terms of retaining (outcome 1) and advancing (outcome 2) lone parents (population) in the UK workforce (context)?

An example of an answerable question about implementation might be: What are the barriers to (factor/process 1) and facilitators of (factor/process 2) getting lone parents (population) to participate (outcome 1) and advance (outcome 2) in the UK workforce (context)?

Systematic searching for studies

Systematic reviews differ from traditional reviews in the comprehensiveness and procedural formality of searching for all of the available research evidence. It counters problems of selection bias that come from only identifying studies that are readily accessible, or that are only published and indexed in major databases. It also helps reduce publication bias, which comes from the tendency for there to be a higher probability that studies that report positive (or in some cases negative) results are published. Systematic searching involves electronic sources, print sources, and the "grey" literature.

Methods of systematic searching

There are at least two methods of systematically searching for potential studies for a review:

- searching by all methodology types yields studies that are more sensitive to the overall literature on the topic in question. However, this method of searching may identify studies that have less relevance (i.e. low specificity); or
- searching by specific methodology types yields fewer studies but these may be more relevant. (i.e. less sensitivity).

Searching by specific methodologies might therefore save time and resources but at the expense of introducing possible selection bias into the review.

Critical appraisal

Critical appraisal is an essential part of a systematic review. Explicit and transparent criteria are used to determine the quality and strength of the identified studies, and hence the weight attached to their findings. Studies which do not meet sufficient quality standards can be rejected. Example criteria that could be used to appraise studies using experimental designs are set out below:

- Question focus: was a clear and answerable question asked?
- Population/groups studied: were the populations and subgroups studied clearly reported, and was the sample size adequate?
- Selection bias: was there any selection bias in the achieved sample, and if so, was it effectively accounted for?
- Performance bias: were the trial and control groups treated similarly other than through the intervention?
- Statistical methods and reporting: were the statistical tests used appropriate to the questions beings asked, and were they reported adequately enough to permit validation and review?

Data extraction and organisation

A data collection form should be developed recording how, and why, data are to be extracted from named studies. A non-exhaustive and non-prescriptive list is set out below. The data that are relevant to the question being asked should determine the type of data extraction and organisation form which is appropriate.

- The nature of the interventions or processes studied;
- the studies' characteristics and methods used, the research design and analytical methods employed;
- the participants (populations and sub-groups) included and excluded; and
- the outcomes or processes measured/observed, and the main and subsidiary findings.

Analysis of data from sifted studies

The analysis of data from sifted studies will depend on the policy question(s) being asked, the type of methodology used in the primary studies, and the likely use to which the findings are to be put. Some issues to be considered in the analysis of included studies are suggested below:

- the appropriate comparisons (if any) to be made by the analysis, and the basis (study results) for making them – these might require some transformation or manipulation to make them comparable;
- the assessments of validity to be used in the analysis, and the analytical approaches to be used for making comparisons and summarising results, including meta-analysis;
- how heterogeneity/homogeneity of included studies will be dealt with; and
- the main findings of the review and the main caveats associated with the findings.

Summary and conclusions

Summary answers should be provided by a review as well as detailed analysis and conclusions to the policy question(s) being addressed. The review should be as clear as possible about what can and cannot be concluded from the existing evidence. It should also identify any weaknesses or limitations in the existing evidence on the topic in question. Finally, the conclusions of systematic reviews become less relevant over time as existing studies age and new studies become available, so any review should be dated and it's most recent update noted.

Rapid evidence assessment

6.20 Rapid Evidence Assessment (REA) is a pared down version of systematic review, employing the same general principles but in a lighter-touch manner to enable reviews to be undertaken more quickly. REAs collate descriptive outlines of the available evidence on a topic, critically appraise them, sift out studies of poor quality, and provide an overview of what the evidence says and what is missing from it. They are based on fairly comprehensive electronic searches of appropriate databases, and some searching of print materials, but not the exhaustive database searching, hand searching of journals and textbooks, or searches of the grey literature that go into systematic reviews.

6.21 Rapid Evidence Assessments carry a caveat that their conclusions may be subject to revision if more systematic and comprehensive review of the evidence is subsequently completed. This is consistent with the important principle that systematic reviews are only as good as their most recent updating and revision allows.

Meta-evaluation and meta-analysis

6.22 The term "meta-evaluation" was originally used to describe the "evaluation of evaluations" (Scriven, 1991) but has also been used to refer to "the synthesis of evaluations". It is similar to systematic review in that it tends to use explicit protocols and criteria for assessing the quality of evaluation studies. It tends to differ from systematic review in two ways:

- the evaluation will generally attempt to synthesise the results of the individual evaluations, either formally or informally, to provide some estimate of, for example, the average effect size across a range of similar studies, or the total combined effect of a number of related studies; and
- studies to be evaluated will not necessarily be identified through a systematic review of the entire relevant literature. Instead, they might be selected because they are of particular interest to the evaluation audience. This might be because they share a similar theme, were funded under the same programme, or were implemented in the same geographical area.

6.23 A meta-evaluation is relevant therefore where there are, for example:

- multiple policy interventions all working towards the same outcome, for example, interventions aimed at reducing childhood obesity;
- large scale programmes which have several strands with overlapping objectives, for example the legacy of the London 2012 Olympic Games covers economic, social and sporting impacts of the Games, as well as environmental and disability outcomes (http://www.culture.gov.uk/); and
- evaluations undertaken in different geographical areas using different approaches to achieve the same objective.

6.24 Meta-evaluation can use a range of more or less formal techniques for synthesising results and drawing conclusions. For instance, Meta-Evaluation of the Local Government Modernisation Agenda: Progress Report on Accountability in Local Government[10] used a range of techniques, including:

- a count of existing evidence reports with findings in favour of a particular result;

[10] *Meta-evaluation of the Local Government Modernisation Agenda: Progress Report on Accountability in Local Government,* Office of the Deputy Prime Minister, September 2006, http://www.communities.gov.uk/

- a questionnaire-based survey of local government officers; and
- focus group discussions with local residents.

6.25 As discussed elsewhere in the Magenta Book, the reliability of results obtained from techniques which use qualitative and other approaches which do not attempt to control for potential confounding factors is limited.

6.26 Meta-analysis is a more formal approach to meta-evaluation. It has been defined as "the statistical analysis of a large collection of analysis results from individual studies for the purpose of integrating the findings" (Glass, 1976)[11]. It is a type of systematic review that aggregates the findings of comparable studies and "combines the individual study treatment effects into a 'pooled' treatment effect for all studies combined" (Morton, 1999[12]). This can be based on a pooling of the individual observations from the original study datasets, but more commonly the average effect sizes estimated in each study are pooled. The variation in these effect sizes is then explained using statistical analysis, often multivariate regression using characteristics of the individual studies ("meta-data") as explanatory variables.[13]

6.27 Meta-analysis is perhaps best known for combining the results of randomised controlled trials, but they are also commonly undertaken on non-randomised data from primary studies that use case-control, cross-sectional, and cohort designs. Meta-analysis has its own limitations, including limits to the comparability of outcomes considered in different studies, and variability in the reporting of relevant meta-data. As with other meta-evaluations, the reliability of the results is a function of the quality of the "source" studies.

Making sense of existing and new evidence: simulation modelling

6.28 The outline logic model in Box 6.A at the beginning of the chapter is conceptually simple, but the examples presented in Box 6.B are in the most part quite involved, with each "step" in the logic itself implying a potentially large number of processes. For instance, the impact pathway for the health costs of air pollution involves complex physical, chemical, biological, technological and economic relationships between the generation of air emissions from electricity generation, meteorological conditions, human physical response to exposure to airborne pollutants, and individuals' attitudes towards changes in their respiratory health.

6.29 As suggested in Chapter 2, in cases such as these, it might not be realistic to expect even a well-designed evaluation to be able to detect any effect of one input – e.g. the amount of coal burned in a power station – and some ultimate outcome – e.g. individuals' health-related quality of life – in a single study. This is because there are too many confounding factors and too much "noise" in the pathway for the effect of one variable on a "distant" outcome to be detected. In these circumstances, an evaluation of a "shorter" set of links in the logic chain is likely to have more chance of producing a robust outcome (e.g. the effects of changes in air quality on reported respiratory health). However, there then remains the question of how the real relationship of interest (which might be the entire impact pathway) can be evaluated.

6.30 In other situations, reviews of the existing literature, using some of the techniques considered in this chapter, might reveal that there is a substantial body of robust evidence covering particular aspects of the logic model in question, but little or no evidence relating to others. This might mean that an evaluation which is restricted in scope and focuses on these less

[11] *Primary, Secondary and Meta-Analysis of Research*, Glass, 1976 Educational Researcher, Vol. 5., No. 10, Nov 1976

[12] *Systematic Reviews and Meta-Analysis, Workshop materials on Evidence-Based Health Care,* Morton, 1999, *University of California* San Diego, La Jolla, California — Extended Studies and Public Programs

[13] *The Essential Guide to Effect Sizes: An Introduction to Statistical Power, Meta-Analysis and the Interpretation of Research Result,* Ellis, 2010, United Kingdom: Cambridge University Press; *Practical meta-analysis,* Wilson and Lipsey, 2001, Thousand Oaks: Sage

developed areas will be considered more robust and better value for money than one that attempts to cover the entire impact pathway. The issue is then how the results of this new study can be combined with existing evidence to answer the evaluation questions.

6.31 Simulation modelling is one way in which the results of different evaluations of separate parts of the impact pathway or logic of an intervention can be combined. Simulation models are most commonly constructed in spreadsheet-style software using quantitative data. This requires that the evidence relating to the different links in the logic model are expressed in quantitative terms (e.g. effect sizes). It also means that the evidence must relate to comparable "endpoints", or at least to endpoints which can be "translated" into comparable measures. Box 6.G illustrates this using the example training intervention introduced in Chapter 2.

Box 6.G: Constructing a simulation model for a hypothetical policy intervention

Chapter 2 presented a (hypothetical) example policy to recruit unemployed individuals onto a new training scheme which provides seminars to improve work skills, with the intention of reducing the costs of unemployment.

A simulation model of a (full) economic evaluation of this intervention might require quantitative evidence on the following links of the implied logic model:

1. measures of the resources used (costs) in delivering seminars;
2. effect of the seminar series on (net) seminar attendance;
3. effect of seminar attendance on participant skills;
4. effect of change in participant skills on subsequent employment and earnings trajectories; and
5. effect of changes in employment and earnings trajectories on quality of life and other relevant indicators (e.g. health status).

In this example, the endpoints of each stage in the logic model are the same, and hence are comparable, by construction. Evidence relating to each stage could therefore be linked in a simulation model with no need for "translation". However, if existing evidence relating to the fourth stage above was defined in terms of (e.g.) formal qualifications, but the evidence on the third stage measured skills in terms of specific abilities (e.g. reading and writing), then some translation might be necessary to estimate the "qualification equivalents" of the skill levels resulting from the intervention.

6.32 The example in Box 6.G suggests that some form of simulation modelling is likely to play a role in a large proportion of impact evaluations. For instance, where outcomes are expected to be affected materially over a number of years, some simulation of these effects might be necessary to ensure that evaluation evidence is obtained in a timely fashion. In addition, it might be difficult to detect in a single evaluation study an effect on lifetime earnings trajectories of attendance on a short-term training course at some point in the past, again suggesting the need to simulate any such effects (assuming there is evidence to support them). Finally, any wide-ranging economic evaluation will almost certainly require a simulation model, not least because many economic outcomes can only be measured through dedicated research exercises. An example might be a survey of affected individuals to estimate the value of changes in health status, which evidence suggests is associated with pollution-related reductions in air quality.

6.33 Whether a simulation-based approach to answering the evaluation questions will be appropriate and necessary is important to establish early on in the design of any new evaluation research study. This is because the need to use endpoints which are either comparable directly or can be translated into comparable terms might influence the design of the study, data

collection and so on. Selecting the incompatible outcome measures at the study design stage might make it impossible to make the necessary linkages in the simulation model, because there is no satisfactory "translation". Issues related to data collection are discussed further in Chapter 7.

6.34 Note that simulation-based evaluations will always be subject to some uncertainty about the validity of the assumed links and evidence underpinning them. With this approach, all outcomes are not measured directly, so the evaluation cannot "prove" that an impact was actually caused by the intervention in question. Where endpoints need to be translated to make them comparable, the translation will by necessity be based on assumption(s), and the validity of these assumptions will affect the reliability of the calculated impacts. In some cases, evidence relating to some links in the logic model might be relatively weak or even missing entirely, requiring stronger assumptions and introducing greater uncertainty. Many theory-based evaluations use significant amounts of qualitative evidence and assumptions to produce estimates of the impact of an intervention, and the uncertainty inherent in such information needs to be borne in mind when considering the reliability of the results.

7 Data collection

Key points

- The collection of data required for an evaluation should be planned before policy activity commences, where this does not occur an evaluation may not be possible or may be severely limited.
- Ethical and data protection requirements need to be taken into account and planned for prior to collecting data.
- Administrative, long-term structural survey and monitoring data are important sources of evaluation data but where they are not available, or inappropriate, alternative data collection methods can be used.
- Monitoring and evaluation are complementary activities, and ideally the design and requirements for each should be considered together, so that the comprehensive data needs of the policy can be considered in the round. This will facilitate the collection of relevant and high quality data and avoid duplication or missed opportunities for the collection of key data. Early identification of any existing data, or other ongoing data collection processes, that can be utilised for the evaluation will ensure best use of resources and effort.
- It is important to design data collection tools so that they are consistent with relevant existing, or previous, data monitoring and collection tools to enable comparison.

Introduction

7.1 Whatever evaluation approach is used, data will be required to evaluate a policy; what data will depend on the types of evaluation proposed and the research questions to be answered. There are four main types of data which, if planned for, might be able to play a key role in supporting both process and impact evaluations:

- existing administrative data that has not been collected specifically for the evaluation;
- long term, large scale, often longitudinal, structural survey data managed by central governments or the Office for National Statistics;[1]
- monitoring data or performance management data that are already being collected to support the administration of the policy; and
- new data collection needed to support the evaluations information needs.

[1] For example the Labour Force Survey, the British Crime Survey, the Wealth and Assets survey, the English Longitudinal Study of Ageing or the Birth Cohort Studies.

7.2 The availability of administrative or general long-term scale structural survey data should always be considered at the design stage of an evaluation because they have the potential to be important sources of background or explanatory data, for example unemployment rates used to explain crime trends.

7.3 In certain cases, where the evaluation has a sufficiently long lead in time, it might be possible to influence the collection of certain information through these sources, but this should not be relied on as a way to provide detailed project specific information.

7.4 As any administrative and long-term survey data will, by their nature, be being collected anyway this chapter will focus on monitoring data (which in some cases will be a sub-set of general administrative data relevant to the operation of the policy or programme), new data collection and data collection tools, before ending with a discussion about ethical and data protection considerations.

What is monitoring data and how can it contribute to evaluation?

7.5 Monitoring data can play a key part in policy evaluation by providing useful data to policy makers and analysts throughout the life of a policy. This can support both the monitoring of the policy as part of its routine management, and its evaluation (see how monitoring and evaluation fit into the ROAMEF policy cycle in Chapter 1).

7.6 Monitoring data are regularly collected about a policy and can include data relating to each component of the logic model (see Chapter 5 for further information on logic models) as summarised in Table 7.A.

Table 7.A: The types of monitoring data collected

Data	Example	Why collect this data?
The people accessing a service	Numbers and characteristics	This can help demonstrate whether a policy is reaching its target population
Inputs	Funding or staff numbers	This can inform a cost-benefit analysis and determine whether assumptions about the policy implementation, such as cost and time, were correct
Processes / activities	Referrals and waiting times	This can help determine whether the policy is being implemented correctly or whether there are any unintended consequences
Outputs	Numbers of people getting job interviews or number of applications processed	This can inform an assessment of whether the programme has delivered the target outputs to the anticipated quality
Outcomes	Employment rates and wages	This will help to measure the benefits of delivering the outputs

7.7 Monitoring data are frequently administrative and quantitative and are often not generated primarily for evaluation. However, this does not stop them from being a very useful resource for analysts, and the availability of this type of data, and whether there is any opportunity to adapt or collect it in a way that best support the evaluation should be considered at the design stage.

7.8 Monitoring data can provide answers to a number of policy, research and performance questions. Monitoring data may form the basis of an impact evaluation if the data is of sufficient quality and allows the estimation of a counterfactual. They also provide information to monitor the progress and performance of a policy from its start and can contribute to a process evaluation.

7.9 With reference to its role in supporting evaluation, monitoring data can be used to collect and measure data relating to:

- the logic model that underpinned the policy (see Chapter 5). Where, for example, an outcome (which may take some time to materialise) is dependent on a sequence of initial processes, if data show that these early stages are or are not happening this will have implications for the confidence policy makers will have in achieving their ultimate objective. For example, where a policy to reduce reoffending is thought to be dependent on an initial process of offenders regularly attending Probation services, and the monitoring data show a low rate of attendance, this data, in conjunction with the logic model may give an early indication that the policy is unlikely to be successful;
- the progress of a policy, programme or project against a set of pre-specified expenditure or output targets. For example the number of client contact sessions with the Probation Service against the target number of contact sessions;
- the numbers and characteristics of people, organisations and businesses accessing or using a policy. For example the demographics of offenders on a reducing reoffending programme and those who drop-out. This can help to determine whether the programme is reaching the target population and whether there are any differences among those that drop-out;
- the contact details of individuals, groups, organisations or agencies that are participating in or are subject to the policy and in some cases, the contact details of a control or comparison group. These can be used to inform the sampling strategies for follow-up research. Alternatively this data may be required to identify individuals on a further dataset, for example, to identify offenders on the Police National Computer to investigate whether they have reoffended;
- the impacts of a policy on central and local government and its agencies, such as hospital admissions and stays; arrests by the police and court prosecutions; enrolments in training course and university places; and use of social services and housing;
- the costs of a policy, this can include costs to other stakeholders, such as businesses or survey respondents, as well as government. For example, monitoring data may collect information on the amount of time Probation Officers spend on client contact sessions which can help calculate the total staff costs of implementing the programme or policy; and
- the economic effects of a policy, through changes in incomes, prices, employment, consumption and other economic measures and indicators of value.

7.10 Analysis of monitoring data can more generally help policy makers identify where a policy is not being implemented as expected and further action is required to ensure it can achieve its objectives. If the monitoring data suggests something is going wrong (such as fewer referrals to a scheme than expected), then policy makers or analysts may want to use an evaluation to check the extent of the "problem" and its reasons to inform contingency actions. Box 7.A provides an example of how monitoring data can be used within an evaluation.

7.11 From this it worth noting that care should be taken to establish the quality of the monitoring data being collected as poor quality or partial data will affect the scope and scale of monitoring data's contribution to an evaluation.

Box 7.A: An example of how monitoring data can inform an evaluation

Free Swimming Programme Evaluation (Department for Culture, Media and Sport)

The Free Swimming Programme began in April 2009 and was due to run to March 2011, but finished early in July 2010. It was funded by five government departments and was intended to get more adults, children and young people physically active. Funding was split into four pots: two supporting free swimming – one for 16 and unders, and another for 60 and overs, plus two capital modernisation pots. The evaluation had three main objectives:

- to measure changes in swimming participation;
- to identify lessons about what works, how, in what context and for whom; and
- to estimate the value for money, health and economic benefits of the programme.

A programme logic model was developed to provide a structure for the evaluation and guide the research. Evidence to measure the inputs, activities, outputs, outcomes and processes identified in the logic model was collected and analysed through a range of mechanisms:

- collection of monitoring data on the number of free swims and free swimming lessons from all 261 local authorities involved in the programme;
- analysis of the Active People Survey, a national c. 190,000 sample telephone survey which measures participation in sport and physical activity;
- a bespoke online survey of 4000 members of the population in the target age groups to assess participation in, and attitudes towards, swimming;
- case study visits to a sample of 12 participating local authorities;
- telephone interviews with a sample of 18 non-participating local authorities; and
- a literature review to assess the health and associated economic impacts of sport and physical activity.

A key focus of the analysis was on understanding the net impact of the programme. The key factors that impacted on the estimation of additionality[2] for this programme were:

- the reference case / counterfactual;
- deadweight (people who would have swum anyway, even if they had to pay);
- displacement / substitution (the extent to which the programme displaced swimmers from outside the target age groups, and how it impacted on participation in other sports);
- wider effects (the impact of the programme on paid swims by friends and family members); and
- sustainability (the likelihood of those who swam for free continuing to swim after the end of the programme).

The main evaluation findings were based heavily on the local authority monitoring data (for measuring gross impact) and the online survey data (for estimating additionality and net impact). There were concerns about data quality of some of the local authority data collection systems, but triangulation allowed an initial analysis for the revenue subsidy part

[2] The number of additional positive outcomes that the programme creates. It equals the number of positive outcomes achieved with the programme minus the counterfactual. It is a measure of the programme effect or impact. See Chaoter 6 for a more detailed discussion.

of the programme which suggested that the cost was greater than the benefit (in terms of avoided cost to the health service). The findings of the first annual evaluation report[3] informed the government decision to end the programme early in July 2010.

New data collection

7.12 All data collection, just like the policy allocation itself, needs to be planned before policy activity commences on the ground. This is to ensure that data are obtained about the baseline before the policy (or evaluation) started (this might be used in an impact evaluation as the counterfactual), as well as the situation once the policy is in operation. Consideration of what data are required, when they will be required and how they will be collected should be undertaken at the appraisal and implementation stage of a policy, Box 7.B covers the key areas to consider.

Box 7.B: The key considerations when planning for data collection[4]

What data need to be gathered to give reliable and consistent measurement against a policy's objectives?

What additional data should be collected to meet the policy maker's requirements for feedback on the policy and to support any planned evaluations?

Who will have responsibility for gathering data?

When will the data be gathered?

What are the key timeframes for collection?

How will the data be gathered, transferred and stored?

What format are the data required in?

How will the data be verified to ensure it is accurate and consistent with the relevant requirements?

7.13 Considering data requirements at the design stage of a policy has a number of benefits:

- policy makers and analysts can identify what regular information they need about the policy, the frequency with which they need it and ensure that this will be available to them throughout the life of the policy;
- data requirements can be designed into the policy so that it delivers this data as a routine process. This means that it can be costed and planned for by the people delivering the policy;
- baselines and counterfactual data can be collected; and
- where external organisations need to provide some of the data, the requirement to do this can be built into their contract (or Service Level Agreement or Memorandum of Understanding) from the outset – it may not be possible to add it later.

[3] *Evaluation of the Impact of Free Swimming*, PricewaterhouseCoopers, 2010 (http://www.culture.gov.uk/)
[4] *Evaluation Guidance Note,* Scottish Enterprise, 2008

7.14 The development of data collection plans should involve both policy makers and analysts, to ensure comprehensive coverage of all requirements and accuracy of research instruments and supporting policy descriptions. Where appropriate, it may also be useful for an external evaluation team, or the people who will deliver a policy, to contribute to the design process prior to the implementation of a policy. Where data for evaluation will be collected via monitoring data, the appropriate monitoring procedures and systems should be set up and embedded from the outset of an intervention, to ensure they systematically generate the appropriate data throughout the duration of the policy.

7.15 Final policy outcomes can take a long time to exhibit and so the collection of monitoring data must take into account the proposed time frames for each intervention. Where it takes too long to capture the final outcomes, or it is simply not possible to directly measure long-term outcomes it may be necessary to collect data on "intermediate" or "proxy" outcomes. Where this is the case these intermediate or proxy outcomes should be identified during the development of the logic model.

7.16 Careful planning for all data collection types is also required to ensure that ethical issues are fully considered, to account for the costs of data collection and to plan how data will be quality assured and transferred and stored.

Will monitoring data be able to be used in the evaluation?

7.17 Existing routine monitoring data has the potential to fulfil some or, on occasion, all the data needs for planned evaluation. If this is the case then the policy makers and analysts have the advantage of reduced costs, reduced intrusion upon operations and potentially a longer historical time frame in which to place observed changes in context. There are, however, clear limitations to these data in terms of what questions can be answered, and the data require substantial processing in order to be applicable to impact evaluations. Indeed this type of data may be of lower or higher quality than those collected expressly for research purposes, and are not independent; this should be considered when deciding whether or not to use it.

7.18 For example, information about exact dates of joining or leaving a programme are likely to be recorded accurately on monitoring systems, whereas the individual participant, if asked in interview, is unlikely to have perfect memory. But data about disability, for example, is likely to be more reliable when collected as part of a research exercise than through monitoring systems. For this reason it can be useful to collect data using a number of methods, such as monitoring data and bespoke surveys, this is known as triangulation and is covered in more detail in Chapter 8.

Who should collect the data?

7.19 In considering whether it is feasible for existing frontline staff to carry out the data collection task, analysts will want to consider issues such as:

- whether there is a culture that is open to research in the participating organisations;
- whether the participating organisations have a particular interest in a certain outcome;
- how heavily the new requirements would impact on the business as usual of frontline staff;
- whether frontline staff are well placed to know the information;
- whether using frontline staff will result in biased data;

- whether there is any means of verifying the completeness and accuracy of the data; and
- whether any necessary changes or additions to IT systems are feasible.

7.20 It is also important not to burden staff with a broad ranging request "for completeness" where there is not a clear match between the level of detail in the data being requested and the analyses actually planned. Indeed the researcher should be able to demonstrate how the data requested will enable the policy to be improved. Where in-house data collection is not feasible, or appropriate, potential alternatives include bespoke surveys, perhaps undertaken and quality-assured by internal or external analysts, and embedded research staff. It is worth noting that monitoring data can be distorted by changes in recording practices, for example, as awareness increases during the course of policy implementation, therefore it is important to ensure that data recording practices remain constant.

7.21 Box 7.C illustrates the key questions and considerations that need to be taken into account to design an effective monitoring system and subsequently to facilitate a good quality evaluation.

Box 7.C: Designing an effective monitoring system

Key considerations

What data needs to be gathered to give reliable and consistent measurement against an intervention's objectives?

1. Identify the goals or objectives of the policy/programme/project
2. Identify key indicators that can be clearly defined and used to monitor progress against the goals/objectives
3. Set targets which quantify the level of the indicators that are to be achieved at a given date

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What additional data could be collected to support the required evaluation activities?

Collection of the following data should be considered:

1. Contact details of individuals, groups, organisations or agencies that are participating in or are subject to the intervention and in some cases, the contact details of a control or comparison group; and/or
2. Financial data relating to policy/programme/project expenditure
3. Data to assess the efficiency of an intervention
4. Outcome-related data

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Who will have responsibility for gathering it?

1. Who is/are the most appropriate individuals to gather the data, e.g. programme/project delivery team, an existing performance monitoring team, and does this individual(s) have the capacity both in time and skills?

2. What resources are required to undertake the task?

↓

When will it be gathered?

1. How often should the data be gathered, e.g. monthly, quarterly, annually etc?

2. Can the process be aligned with the auditing/reviewing process of the funding body?

3. Can the process be aligned with the reporting schedule for the evaluation?

↓

How will it be gathered and stored?

1. What format should the system use and can this be aligned with existing monitoring systems?

2. Data protection protocols to ensure the system is designed to meet security and data sharing requirements

3. What ethical e.g. informed consent and data protection considerations needs to be taken into account?

4. Where will the data be stored?

↓

How will the data be verified to ensure it is accurate and consistent with the relevant requirements?

1. Who is/are the most appropriate individuals to verify the data, e.g. analyst, programme/project lead at the funding body, independent evaluators etc?

2. What resources are required to undertake the task?

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Design and implement monitoring system

7.22 What if existing monitoring data is insufficient to answer the evaluation research questions?

7.23 Before launching new data collection processes it is important to review existing financial, administrative and monitoring data generation processes to identify whether the required evaluation data can be sourced from existing data sets, or an extension of an existing data set collection processes.

7.24 Frequently, however, new data, whether new monitoring data, or other forms of primary data, will need to be collected. This requires advance planning and ideally should be specified when designing a policy to ensure that the systems are in place to provide evaluators with the required data.

7.25 In the absence of regular data collection on the inputs, outputs and outcomes of a policy (which may be particularly important for an impact evaluation), subsequent evaluation may need to:

- highlight this as a shortcoming and identify the reasons for the data not being available; and
- take steps, as far as possible, to retrospectively collect and analyse data on the performance of the project.

7.26 However, attempting to retrospectively collect data in this way is not recommended. It is very likely to be more expensive than collecting data at the same time the policy was taking place. In addition, data may no longer be available or may be inaccurate or piecemeal and the opportunity to validate this data may have been lost. Information may not have been collected on drop-outs which may bias the findings. This is particularly relevant where this information is required to contact participants or where it is needed in order to identify them in other datasets. In summary, it can mean that an evaluation is not possible or that its findings are much less reliable than if data had been collected at the same time the policy was being delivered. Planning an evaluation, and its data requirements, early will therefore minimise the need to collect data retrospectively.

Designing data collection tools

7.27 Where monitoring data is not feasible or appropriate, bespoke research can be used to collect either process or impact evaluation data. This may be in the form of adding questions to existing surveys[5] (which are also useful for providing background information and as a source to sample from or weight back to), if timescales allow, or designing new primary research.

7.28 To meet the requirements of impact evaluations research will need to collect standardised data from both the treatment and control groups to allow for comparison against the counterfactual. Sampling must also be taken into account during the design of both quantitative and qualitative research to ensure that the sample size is large enough to achieve the desired information (for example, statistical power in a quantitative survey) to obtain robust results. These issues are considered in more detail in Chapters 8 and 9 and supplementary guidance.

Surveys

7.29 Surveys can be used to seek different types of information as covered in Table 7.B. However, it is worth noting that although surveys can be used to ask questions about behaviour it may not be the most reliable measure. Respondents may give socially acceptable answers (though good design and experienced interviewers can reduce this), or be genuinely uncertain about the true answer. For this reason, it might be necessary to observe behaviour rather than simply ask about it. Observation methods are discussed in more detail in Chapter 8.

[5] Either local or cross-government surveys such as the Labour Force Survey, British Crime Survey, British Social Attitudes Survey or the Family Resources Survey.

Table 7.B: The different types of information collected through surveys

Types of questions	The type of information collected
Factual questions	Surveys often offer the only practical and affordable way of collecting such information, and in some cases there is no other source or way of measuring the attribute of interest. This can include respondents' assessments of their health status, life satisfaction and so on.
Knowledge questions	Assess what respondents know about a particular topic and their awareness of the intervention being evaluated.
Attitudinal questions	Seek to measure respondents' opinions, beliefs, values and feelings which cannot be verified by reference to observation or external data sources.
Behavioural questions	Measure what people do or intend to do and how that has changed as a consequence of the intervention.
Preference questions	Respondents' preferences for different possible options and outcomes, including trade-offs between competing policy objectives. These can be used to elicit monetary values for different outcomes, including those not readily possessing market prices (e.g. changes in air quality, health status) for use in cost-benefit analyses.

7.30 When designing surveys there are four golden rules that are useful to consider:

- Can the respondents understand the question – and do they understand it in the same way that you do?
- Are respondents able to answer the question?
- Are they willing to answer the question?
- Will the question produce a reliable response?

7.31 Most data collection tools, whether qualitative or quantitative and their associated materials (e.g. show cards) will require developmental effort, possibly involving cognitive testing or pilots, to ensure they collect information effectively. This will be particularly true with complex questionnaires, such as those attempting to elicit preferences for social impacts, and further advice on writing and testing survey questions is provided in the supplementary guidance. It is important to ensure that new research is consistent with relevant existing or previous data monitoring and collection tools to enable comparison. Where possible, it is helpful to use standard formats for survey questions, or interview schedules, to ensure this consistency. This can have benefits not only for the particular evaluation study, but for building a wider evidence base, particularly where evaluations are being undertaken at a local level. There are some particular points to bear in mind when developing questions for quantitative surveys:

- the Office for National Statistics (ONS), in recent years, has been working towards harmonised questions for common variables such as age, gender, ethnic origin;[6]
- some questions have been extensively validated in previous studies – examples are the GHQ-12 set of questions for measuring mental well-being and the EG-5D questions for measuring health status.[7] Using these will enable comparisons with many other studies, and will ensure the results of the evaluation can be correctly interpreted;
- it may be appropriate in many cases to repeat surveys at the same time of year as a previous one, in the same geographical areas, or using the same sampling frame. A

[6] See http://www.ons.gov.uk/about-statistics/harmonisation/index.html
[7] See http://www.ons.gov.uk/about-statistics/harmonisation/index.html

good example of this would be evaluating crime reduction programmes. Some crime types are seasonal, for example, bicycle theft increases in the summer, in contrast burglary increases in winter. Therefore to be certain that a new programme was as effective as one previously evaluated, any data collection would need to be timed appropriately;

- in general there are likely to be tensions: between collecting precisely the ideal data for the current evaluation, and consistency with other studies; or between different, non-comparable, previous studies. To arrive at a balanced view, it is important to be clear as to which (if any) are the key studies to which the results are to be compared; and
- where possible, engage with specialist analysts within your own department or ONS when designing data collection tools.

7.32 It is also important to consider possible subsequent uses of the data during the planning stage and a particular consideration is whether the data can be archived, under what conditions and how much preparation it will need to ensure suitable anonymisation. A common practice is to make suitably anonymised data available through the Economic and Social Data Service.[8]

7.33 In some cases data may need to be kept for future use in such a way that individuals could be identified for future follow-up.[9] The informed consent process for any data collection will have to be designed with storage decisions in mind. Contracts with external research contractors will need to stipulate what outputs, including data sets, are to be provided and can include work to anonymise data. Contracts will also have to consider copyright of intellectual property including research tools as well as datasets.

Ethical and data protection considerations

7.34 Ethical and data protection considerations need to be taken into account when designing and undertaking any evaluation. However, the issues in these areas can be complex and sensitive, often requiring consideration on a case-by-case basis with analysts and other experts at the evaluation design stage and throughout the life of the evaluation. Best practice cannot cover all eventualities and so it is advisable to raise any areas of concern with the relevant Head of Profession/Senior Analyst.

7.35 It may also be necessary to gain ethical approval through an appropriate ethics committee, e.g. the Integrated Research Application System (IRAS),[10] the HSE Research Ethics Committee, the Social Care Research Ethics Committee etc. to undertake an evaluation. The need to gain this form of approval will depend on the content and form of evaluation being undertaken and should therefore be considered on a case-by-case basis. If an evaluation will involve research with vulnerable groups or individuals who lack the capacity to give informed consent, approval will need to be sought from an "approved body", for more information see the Department of Health factsheet for social scientists on the Mental Capacity Act.[11]

7.36 When considering data protection issues it will also be necessary to consider data security, transfer and sharing issues. This should include the consideration of non-disclosure and the physical aspects involved in data sharing (such as storing and accessing data) and in turn should

[8] http://www.esds.ac.uk/

[9] There are also Government Statistical Service protocols on data management, documentation and preservation – see http://www.ons.gov.uk/about-statistics/ns-standard/cop/protocols/index.html

[10] IRAS is a single system for applying for permissions and approvals for health and social care / community care research in the UK. See http://myresearchproject.org.uk

[11] *The Mental Capacity Act – factsheet for social scientists*, The Department of Health, September 2009

lead to the setting of clear data protection protocols which comply with the contractual arrangements of the relevant agencies.

7.37 There are a range of sources of information available to assist analysts and policy makers with ethical and data protection considerations and reference should be made to these, and other sources of guidance provided by the Civil Service professions, and any specific guidance issued by UK departments and devolved administrations when planning data collection.

7.38 Key sources include:

- The GSR code which, as an addendum to the Civil Service Code, sets out specific principles to guide the work and behaviour of Government Social Researchers, available at: http://www.civilservice.gov.uk/my-civil-service/networks/professional/gsr/
- GSR guidance on ethical assurance for Social Research in Government available at: http://www.civilservice.gov.uk/my-civil-service/networks/professional/gsr/
- The GSR ethics checklist which can help those designing or carrying out an evaluation to identify important issues to consider, available at: http://www.civilservice.gov.uk/Assets/gsr_ethics_checklist_tcm6-7326.pdf
- The codes of practice established by the Government Statistical Service – the UK Statistics Authority Code of Practice for Official Statistics (2009) http://www.statisticsauthority.gov.uk/
- The Social Research Association ethical guidelines http://www.the-sra.org.uk/
- The Market Research Society code of conduct http://mrs.org.uk/
- The British Psychological Society ethical guidelines and support http://www.bps.org.uk/
- The Data Protection Act 1998 http://www.legislation.gov.uk/
- The Freedom of Information Act 2000 http://www.legislation.gov.uk/
- The Freedom of Information Act (Scotland) 2002 http://www.legislation.gov.uk/

8 Process evaluation, action research and case studies

Key Points

- Process evaluation, action research and case studies can be used to evaluate the implementation and delivery of a policy to provide feedback on a wide range of issues. These can include whether the policy is being implemented as planned, what is working more or less well and whether it is delivering expected outputs and outcomes.
- Process evaluation cannot determine whether a policy "worked" this can only be achieved using an impact evaluation. It can, however, complement an impact evaluation by providing crucial insights into why a policy did, or did not, work and test the logic model on which the policy is based.
- It is important to consider at the planning stage the information requirements for any economic evaluation that process evaluation would be best placed to collect.
- Process evaluation, action research and case studies use a range of qualitative and quantitative research methods including one to one interviews, group interviews, surveys and observations. Multiple methods are often used to provide triangulation of data and corroborate findings.

Introduction

8.1 As has been discussed earlier, evaluation is not something that happens only after a policy has been implemented. Evaluation can be used throughout the life of a policy to provide policy makers with timely feedback about whether a policy is being implemented as expected, whether important outputs are being delivered and if there are any parts of the policy which are not working or which are working particularly well. Process evaluation, action research and case studies provide evaluation evidence on the implementation and delivery of policy which provides policy makers with the opportunity to refine and improve policies to help them have the best chance of achieving their ultimate aims. This chapter will describe the three evaluation approaches, presenting their similarities and differences, and describe the range of research methods used in these approaches, and key principles to consider when deciding which method/s to use.

Evaluation to understand the implementation and delivery of policy

8.2 A number of different evaluation designs can be used to understand the implementation and/ or delivery of a policy. As discussed in Chapter 5, choosing the most appropriate design will be dependent on a number of factors including the types of research question that need to be answered, how a policy has been delivered (e.g. national roll out or pilot) and practical issues such as when evidence is needed and what resources are available. The most common types of

research that might be used to evaluate the implementation and delivery of policy are process evaluations, action research and case studies.

Process evaluation

8.3 Process evaluation primarily aims to understand the process of how a policy has been implemented and delivered, and identify factors that have helped or hindered its effectiveness. It can take place at any time that the policy is being delivered (the timing of the evaluation will depend on the policy and research questions that need to be answered). Process evaluation can generate a detailed description of what interventions are involved in a service or policy, who provides them, what form they take, how they are delivered and how they are experienced by the participants and those who deliver them. It can also provide an in-depth understanding of the decisions, choices and judgments involved, how and why they are made and what shapes this. It can therefore provide timely information to answer the types of questions in Box 8.A.

Box 8.A: The types of questions answered by process evaluations

How was the policy delivered?

In what context was the policy delivered?

What did participants and staff feel worked in delivering the policy, why and how?

What did they feel worked less well in delivering the policy, and why?

What, therefore, might act as facilitators and barriers to desired impacts? How can barriers be overcome and facilitators harnessed?

Which particular aspects of the policy seem to have led to an observed outcome (in conjunction with an impact evaluation)?

Was the policy implemented "on the ground" in the way it had been planned? (This could include observation of the "take up" of a service or policy, or "compliance" where the policy includes regulation or legislation. It could also include identification of unintended outcomes.)

How consistently was the policy implemented across multiple sites or did local variations mean that effectiveness was diluted?

Did the policy meet its targets for inputs and outputs? (To establish the need to investigate causes of any difference between expectation and delivery.)

Was the logic model (see Chapter 5) linking policy and outcomes supported in the experience of the people delivering or receiving the policy?

Did recipients and staff understand the intervention?

What was the experience of recipients and staff who received and delivered the intervention? Which aspects were most valued or caused difficulties? Was this different for different groups of people?

What was the nature of interactions between staff and recipients during the roll out?

Who did not engage, or dropped out, and why?

How effective were risk management strategies in anticipating and mitigating risks?

Did the policy meet budgetary expectations when rolled out, or were there unforeseen issues and hidden costs?

How might the policy be refined or improved?

8.4 Process evaluation can therefore provide information to assess how a policy is performing, improve the quality of the policy, if needed, and inform future policy development. As noted, this information can be important in explaining the results of an impact evaluation. In particular, without a process evaluation it may not be possible to assess whether a policy that appears not to have had an impact is actually flawed itself or has been affected by poor implementation and delivery. Additionally, where a policy is shown to "work", a process evaluation might indicate which elements of the policy appear to be most influential and therefore how resources might be most efficiently used. It might also supply the data which can be used in an impact evaluation to test the influence of different aspects of the intervention. Where local contexts appear to have influenced the success of a policy this can also help policy makers consider how likely results are to be duplicated in other situations and circumstances.

8.5 There is no single way to conduct a process evaluation. The evaluation can be designed to meet the exact information needs of a particular policy. The methods, timeframes and costs will all therefore depend on what information is required. It is very important to be clear about the aims and objectives of a process evaluation by:

- identifying all the policy questions the research will need to answer and when these will need to be answered;
- drafting clear research questions that reflect these policy priorities;
- identifying what data will be needed to answer these questions: including who will have this information, which groups will be studied (and what sampling techniques will be needed if not all participants will be included), what format it will be collected in (for example. paper or electronic), and when the data will be available;
- deciding at what stage in the policy a process evaluation will provide most value (if not throughout the study); and
- understanding how the resulting evaluation will support an assessment of the policy's performance, refinement of the policy, or an impact evaluation.

8.6 Process evaluations might collect and analyse quantitative or qualitative data to answer the research questions, or a combination of both. It is important that whichever data is used, that it is collected accurately, analysed robustly and presented appropriately. This could mean identifying an appropriate and credible sampling technique to choose research participants, ensuring appropriate statistical techniques are used when quantitative data is analysed, or choosing a range of methods or groups of participants to corroborate findings or deepen understanding (also known as triangulation of data). Triangulation of data, or the use of multiple methods, which explore similar research questions adds credibility to and confidence in the findings of an evaluation and strengthens the conclusions and recommendations that can be made as a result (triangulation is discussed further in Table 8.A below).

8.7 Input and outcome measures can feed into any economic evaluation, so it is important to consider the information requirements for cost-benefit analysis when planning a process evaluation. Often, the process evaluation might be the principal or even the only source of additional data for an economic evaluation. Therefore, if the special data requirements for economic analysis are not considered when designing the process evaluation, a meaningful economic evaluation might be effectively precluded, as it will not be possible to collect the information retrospectively.

8.8 Further information about methods that can be used to support process evaluations (and action research and case studies) and how they can be chosen to best answer the research questions set for an evaluation is discussed below.

Table 8.A: Types of Triangulation (Denzin[1] 1989)

Methodological triangulation	This refers to combining different research methods. This can include "within research" triangulation (where, for example, a range of different lines of questioning might be used to approach the same issue) and "between method" triangulation (where different data collection methods are combined). This can also include the combining of qualitative and quantitative data.
Data triangulation	This means combining data from more than one source, for example, a number of settings, points in time or groups of people.
Investigator or analyst triangulation	This involves more than one researcher looking at the data so that they can either check or challenge each other's interpretation or deliberatively approach the data from different angles.
Theory triangulation	This means looking at the data from different theoretical positions in order to explore the fit of different theories to the data and to understand how looking at the data from different assumptions affects how it is interpreted.

Action research

8.9 Action research is an approach to evaluation which can help policy makers and practitioners make changes to improve policy at an early stage in policy development and increase the likelihood that a policy will achieve its aims. Action research involves the researcher and those involved in developing and implementing the policy collaborating to diagnose actual problems and develop solutions based on this diagnosis.[2] To maximise the benefits of action research, this collaboration should be very active and this type of research is likely to require a lot of input from both researchers and policy makers. Action research often coincides with a policy's implementation to identify issues that might occur at this stage ensuring that implementation is as effective as possible, and anticipating and addressing any issues that arise at this early stage. However, it can successfully be used at all stages of the policy process.

8.10 Examples of when action research might be particularly useful are where:

- a novel way of working or delivering an intervention is being implemented;
- a policy is based on a new or unproven theory of change (see Chapter 5 for more information on theory of change) and little evidence is available about how it might work in practice;
- there are a number of feasible alternative options for delivering a policy and it would be helpful to test them; or
- a policy is being delivered in a challenging implementation environment.

8.11 However, action research is well placed to meet a wide range of policy needs, particularly when a quick, responsive, problem solving approach is required.

8.12 Action research is likely to require collection of data to understand the environment in which a policy is being implemented or delivered and data to diagnose any problems with this process. It also needs to collect data to help identify possible solutions to improve the policy or its delivery. This might include collection of quantitative and qualitative data or a combination of both (possible methods of data collection are discussed below). The key aspect is that the action

[1] *The Research Act: A Theoretical Introduction to Sociological Methods,* Denzin, 1989, Englewood Cliffs, NJ, Prentice Hall.
[2] See *Social Research Methods,* Bryman, 2001, Oxford: Oxford University Press

researchers should regularly feed back their analysis of this data to the policy maker and/ or practitioner and together they should identify key problems and possible solutions. If possible, it is helpful for the action researcher to further evaluate these changes to the policy to ensure that they are having the desired effects.

8.13 Therefore where action research is being carried out, it is important that policy makers and/or practitioners are willing to make changes to the policy as a result of the action research as its value is in changing how the policy is being delivered on the ground. It is particularly important to consider when it would be most appropriate for data collection for any impact evaluation to take place. It is desirable to begin this data collection once the action research has been completed so that only the impact of the improved policy is captured, otherwise a possible finding that the policy has little, if any, impact would be of no value for future decision making.

Case studies

8.14 In this chapter case study is defined as an in-depth, possibly longer term investigation of a single or very limited number of people, event, context, organisation or policy. A case study might be used when seeking to understand a significant or novel situation and to provide particularly rich data. Although the conduct of a case study can sometimes appear to be similar to that of a process evaluation, including in the generation of research questions and choice of methods (discussed below), there are key differences between the two which will affect how they are conducted and how the data generated can be understood.

8.15 Case studies will tend to be more localised or context specific than a process evaluation. That is to say they may look at a small-scale policy or project that is happening in only one, or a very small number of areas, and with limited numbers of participants. The policy or event being studied may even be a one-off situation such as the impact of the 1980 Cuban expulsion of workers into Miami on the labour market.[3] Alternatively, a case study approach may be used to investigate a larger scale policy but the case study itself would tend to focus on the experience of the policy for a limited number of people or in a limited number of locations which are of particular interest to policy makers. This type of case study may be used on its own simply to provide data about the people or areas of interest or may contribute to a larger process evaluation by providing this more in-depth account as part of a wider analysis of the overall implementation and delivery of a policy. Whatever the context, case studies are likely to be used when what is required is a very detailed, in-depth understanding that is holistic, comprehensive and contextualised.

8.16 Case studies will tend to use a variety of research methods and triangulation (see Table 8.B) to develop a clear, well reasoned and comprehensive understanding of the situation, project or people being studied. This can provide very useful learning for analysts and policy makers to identify why something happened or did not happen, the mechanics of how a policy works, how people worked together or how behaviour was influenced, and very in-depth information about how a policy has been working in practice. As a result, this can help generate hypotheses and templates for wider roll out of a promising policy or suggest ways of working that might work in similar circumstances. However, because of their focus on a limited number of examples, unique situations, or small-scale projects, case study data should not simply be generalised to a context beyond that being studied and it is important that their results are reported and used with this understanding.

8.17 In some situations a case study approach can be used to assess both the implementation and the results of policy in a particular area, generating quantitative data to support an

[3] *The Impact of the Mariel Boatlift on the Miami Labor Market*, Carol, 1990, Industrial and Labor Relations Review Vol. 43, No. 2 (Jan., 1990), pp. 245-257

evaluation of the policy's impact. In this situation, if the data is suitably robust, there is sufficient sample size and an appropriate comparison group to assess what would have happened in the absence of the policy (the "counterfactual"), then an impact evaluation may be possible within the case study. Guidance on impact evaluation can be found in Chapter 9. However, there is likely to be a lower possibility of generalising findings from impact evaluations which have been conducted within a small case study than in evaluations which have a broader scope.

Why undertake a process evaluation, action research or case study?

8.18 These three types of research have many overlaps, being able to answer similar research questions and tending to use a similar range of methods to collect data. However, they do have different principal characteristics which are presented in Table 8.B.

Table 8.B: The principal characteristics of process evaluation, case studies and action research

Type of research	Characteristics
Process evaluation	Probably the widest and most flexible of the three types of evaluation. Investigates a number of different research questions to understand and chart the implementation and delivery of a policy. Summation of past activity (whilst still having the aim to influence and improve future practice).
Action research	Interactive and iterative research which is used to influence the development of the policy being implemented. Therefore involves close collaboration between the researchers and policy makers. Requires commitment from policy makers to swiftly and continuously reflect upon and amend their policies, which may not be feasible with large scale policy implementation.
Case studies	Focussed on smaller scale or more localised aspects of policy delivery providing a level of detail that would be unwieldy if replicated for the full breadth of standard policy implementation. Might be used as part of a wider process evaluation.

8.19 These types of research can also be used in combination to strengthen the evaluation of a policy's implementation and delivery. For example, action research might be undertaken when a policy is initially being implemented to refine its procedures and practice, and a process evaluation could then assess the delivery of the final version of the policy. Alternatively, a case study approach could be used within a process evaluation to provide more detail and in-depth data on a context, area or situation of particular interest.

8.20 Taken together, these types of research may be particularly useful when:

- evaluating a new or innovative pilot project where rich data is needed to evaluate what has worked more or less well - including how a policy might be streamlined and made more efficient and how it might be developed in order to be rolled out to a wider audience;
- assessing best practice to identify aspects of policy delivery that appear particularly effective or successful in the area(s) being studied and which might provide a model for similar work in similar areas;
- identifying how to develop or improve service and policy delivery (for example, the evaluation of the Sure Start children's centres showed that there were barriers to

fathers participating fully, and was able to give useful suggestions as to how this could be improved);[4]

- investigating local variation and practice and whether this has a positive or negative influence on implementation;
- assessing/ identifying unintended or unforeseen consequences of the policy that might affect the overall impact of a policy; and
- conducting an impact evaluation will not be possible or will be severely constrained. This might include a small-scale project where the sample size is too small to support an impact evaluation, a project that is rolled out nationally so there is no opportunity to create a comparison group, or a policy where the impact of interest may not be measureable or cannot be measured until too late in the policy cycle. Monitoring data or process evaluation in these situations could provide descriptive data of performance against agreed targets or outputs and qualitative assessments of efficacy.

8.21 These types of research can also supplement and complement an impact evaluation with rich data to explain the impact (or lack of impact) that has been observed. Evaluation of the implementation and delivery of a policy can specifically help explain why, how and for what reasons policy outcomes occur, whereas impact evaluations tend to focus on what, where and when outcomes occur.

8.22 For example, a process evaluation may identify that a policy has not been targeted correctly, (such as a community service intended for the socially deprived that has actually been primarily accessed by more affluent and established members of the community) which means that the expected outcomes were unlikely to occur. Alternatively, it could explain why the intended recipients of a policy have not engaged with it or why the policy has not met their needs (for example, a service to get people into employment may initially have successful outcomes but if the employment is not suitable for their skills or existing commitments people may resign).

8.23 Importantly, a process evaluation can provide further data to explain differences observed in an impact evaluation. For example an impact evaluation might show more or less impact for different groups of service recipients and a process evaluation or case study could provide insight into their experiences of the policy which might explain these variations in success.

8.24 Process evaluations, action research and case studies can therefore answer a range of policy and research questions and are very flexible and useful analytical tools. As discussed in Chapter 5, as with all evaluations, however, in order to get most benefit from them, it is important for policy makers and analysts to identify what specific information will be needed about a policy at the design stage. This will help identify what type of evaluation will be most appropriate and effective and at what stage(s) data should be collected and analysed. Box 8.B provides an example of a process evaluation.

[4] *Fathers in Sure Start local programmes*; Lloyd, O'Brien and Lewis, 2003, NESS Research Report 04,DfES; HMSO. http://www.education.gov.uk/publications/

Box 8.B: Process evaluation example

Evaluation of provision of calorie information by catering outlets (Food Standards Agency)

Provision of nutrition information in catering settings, specifically calorie labelling, formed a part of the previous government's wider programme of activities to tackle a range of diet related public health issues, including obesity. In January 2008, the Food Standards Agency (FSA) launched an initiative beginning with the voluntary provision of calorie information (CI), at point of choice (POC), as the first step to providing consumers with more consistent nutrition information when eating outside of the home.

The aim of the evaluation was to explore the practical implications for the 21 businesses participating in the pilot scheme in setting up and running the scheme and to get an early understanding of consumers' (respondents who took part in group discussions and who indicated that they regularly ate in the types of catering outlets represented by the participating companies) and customers' (respondents who took part in observations and interviews in the participating catering outlets) use and understanding of the scheme, to provide information on what worked and where improvements could be made. A process evaluation approach was adopted and several different methods were used.

Business research

- 39 business interviews (20 Head Office, 19 Outlet Manager) were conducted in person or over the phone depending on businesses' preferences – exploring why the business participated in the research, how they set up the scheme, decisions around display of the CI and how issues during set up and roll out were dealt with.

Customer research and consumer research

- 289 customer interviews across the country in catering outlets; 143 POC observational interviews where behaviours were observed and consumers asked about how they were choosing their food; and 146 post choice interviews shortly after people had made their food choices – explored understanding and use of CI in purchasing decisions and views on presentation of CI.
- Eight group discussions with consumers in four locations – explored in more detail issues which were raised in the customer interviews.

The main findings of the evaluation were:

- participating businesses were generally positive about their involvement in the pilot and most set-up issues were overcome with relative ease; there were some concerns about further roll out that would need to be addressed (e.g. ensuring adequate IT systems in place);
- actual usage of CI was low, but consumers could envisage ways in which CI might be used (e.g. balancing meals); and
- the capacity and inclination of consumers to use the information, was dependent on three factors: visibility (presentation of CI should ensure that the text stands out so that it is noticed), understanding (additional information, e.g. reference information, is helpful for consumers to interpret CI accurately) and consumer engagement (the use of positive messages when displaying information helped

engage consumers with CI).

The findings from the evaluation were used to develop proposals for a voluntary calorie labelling scheme and these were put out to consultation in early 2010 and have shaped and set guiding principles for the scheme.[5]

Research methods to support process evaluation, action research and case studies

8.25 There is no single way to undertake process evaluations, action research or case studies. They are very broad types of evaluation design in which analysts, in consultation with policy makers, can choose a variety of methods to answer the particular research questions, considering the timescales, resources and data available. As well as considering the immediate questions that a policy maker might want to answer about the implementation and delivery of a policy, it will also be important to consider whether an impact and/or economic evaluation will also be conducted. If so, then in the planning stage, consideration should also be given to what data might be required to inform, and explain the results of, the impact evaluation and how the delivery and implementation evaluation could collect relevant data.

Choosing research methods

8.26 When designing a process evaluation, case study or action research the principles in Table 8.C should be followed in translating research questions into the range of particular research methods that might be used.

Table 8.C: Principles to consider when selecting research methods

Principles	Explanation
There must be a clear set of research questions that can be addressed through the delivery and implementation evaluation.	Research questions that are broad or vague can easily lead to unsatisfactory studies that simply do not produce new insights or do not have sufficient relevance or reliability to aid future decision making, which means that the evaluation will not offer value for money.
There should be coherence between the research questions and the populations and data studied.	Populations and data that are going to give the most direct and insightful information on the subject matter should be selected, taking into consideration which subsets of these populations are critical for inclusion or exclusion. (More information on sampling is provided in supplementary guidance). For example, researchers and policy makers may want an overall assessment of how a policy has been experienced/ implemented for everyone receiving it, but also to understand if there were different issues/ experiences for different genders, ages or ethnic groups. If there is already robust evidence on the experience of a particular group of service recipients, then an evaluation may want to focus on gathering data on other recipient groups rather than duplicating previous research.
Building comparisons into the design can be helpful and lead to more in-depth understanding.	For example, a study looking at a particular phenomenon among lone parents (such as attitudes to work) might be enhanced by including couple parents. Comparing the responses of the two groups will help with understanding of what is a function of being a lone parent, as opposed to that of simply being a parent.

[5] *An evaluation of provision of calorie information by catering outlets, prepared for the Food Standards Agency,* BMRB Social Research, December 2009, http://www.food.gov.uk/

There should be coherence between the research questions and the settings studied.	For example, sites should be chosen to provide coverage of the populations of interest to the policy makers. This could range from specific locations, organisations, contexts or groups of people all the way to collecting national data.
There should be a logic between the research questions and the data collection methods used.	For instance, are naturally occurring data needed because what is being researched is best illuminated by observing behaviour or interaction? (This might be the case where there is reason to believe that people's self-reported behaviour might not reflect what actually happens in practice.) Or do the research questions require evidence of people's own experiences, opinions and views? In which case data might be best collected through individual interviews or group discussions. Alternatively, if quantitative data (for example statistics on service take-up) is required then this might be most appropriately met by using existing monitoring data or commissioned surveys.
There should be a logic to the timing of the episodes of data collection.	This would include deciding at what stage of delivery and implementation information should be collected, and if data is required at a number of intervals. For example data may be collected to assess levels of attendance on an employment course at the start, middle and end of the course, or assessments of educational achievement may be made of a group of students before and after they receive a new educational intervention.
It is important to consider the feasibility and appropriateness of a proposed methodology within the actual research setting.	For example, it would be important to check that researchers would be allowed to observe particular aspects of service delivery, such as counselling sessions, before adding this technique into the evaluation design.

8.27 It will also be important to consider at an early stage the criteria against which a policy or service is to be evaluated, and what data will credibly demonstrate if these criteria have or have not been met. Table 8.D provides a list of questions to use as a guide when designing process evaluations, case studies and action research. The questions should be asked for each research question to ensure that they drive the study design and choice of methods. The same method can be used to answer a number of questions and this should be taken into account when designing the research tools and sampling.

Table 8.D: Key considerations when designing process evaluations, case studies and action research

Key question	Considerations
What type of data will be required to answer each research question?	• Is numerical data required? • Is factual (documentary) data required? • Is observational data required? • Is data to describe people's experiences, opinions, and views required? • Will a combination of these types of data be required?
Who or what can provide this data?	• Which participants, service providers, stakeholders, databases etc., would have this data and/ or need to be consulted? • Do/ will researchers be able to get access to this data? • Are there any potential sensitivities/ ethical issues in collecting data from these groups, areas, databases etc.?
What section of the population of interest should data be collected from?	• Who is the population of interest? • Will the research be a census of all available data/ population of interest or will a sample of the population be studied? • For qualitative sampling – what range of people, experiences, organisations, contexts etc. need to be covered? • For quantitative data, what types of estimate will the data need to provide and how precise? Which sub-populations need to be included? What impact does this have on the sample size required? • For qualitative and quantitative data – what sampling frames are available or will need to be created?
How will the data be collected?	• Which research method is best placed to provide the required type of data from the required sources (see below for summaries of key research methods)? • Is the data already being collected or will new data collection be required for the research? • When should/ can the data be collected? • How will data be validated/ triangulated? • Who will collect the data?
How will the data be analysed?	• Does the method of analysis that will be used require a particular sample size or type of data to have been collected?

Research methods

8.28 The Magenta Book does not provide detailed guidance on how to design and conduct individual research studies using different methods. However, some of the methods most commonly used in process evaluations, action research and case studies are briefly introduced in Table 8.E (further information on the qualitative data methods discussed is provided in the supplementary guidance).

Table 8.E: Research methods used in process evaluations, action research and case studies

Interviews	Interview data can provide rich information about the attitudes, opinions and experiences of people involved in a policy to provide in-depth information about how it is working in practice. They allow participants to explicitly explain their views, decisions or actions, describing what has shaped them. Interviews with key participants can be structured (a set list of questions is used with all interviewees), semi-structured (a list of questions with flexibility to probe further) or unstructured (no set list of questions). Interviews most commonly take place face to face between an interviewer and one interviewee, but might also take place over the telephone. The key people to interview will vary from policy to policy but may include those implementing a policy (including a range of levels of seniority and job roles), those receiving a policy, and also stakeholders with an interest in the policy. Usually the analysis of interviews is based on examination of the content, but less frequently techniques of conversational analysis can be used to analyse the *way* that things are said, by looking at speech patterns and/or body language.
Group interviews	Group interviews provide an opportunity to collect information for a group of people on their attitudes, opinions, perceptions and experiences, building and reflecting on each other's ideas and suggesting a variety of viewpoints and proposals. In group interviews data can be shaped through group interaction. Group interviews can be used with the range of people delivering or receiving a policy. They can work very well in tackling abstract or conceptual topics, where on a one-to-one basis a participant might "dry up". In group interviews, the researcher usually acts as a facilitator and works to a core script which sets out key questions or issues to be discussed by the group. Group interviews can work well in combination with one-to-one interviews or other research techniques. For example, at the beginning of a study they can be used to understand people's current practise, behaviour and beliefs, and test understandings of issues that can then be investigated later in one-to-one interviews. At the end of a study, they offer a deliberative forum for examining the implications of the study's findings for service delivery or policy development, and/or generating or prioritising solutions, with a focus on providing practical suggestions to improve the policy or service. Group interviews can be particularly useful with research participants who may find one to one interviews "scary".[6]
Observation/ participation	Observing or participating in a policy as it is being delivered provides researchers with direct experience of how a policy is working in practice, for example, a researcher may observe court hearings or benefit interviews. Data will tend to be recorded by the researcher either in narrative form or in a pro-forma, at the same time as the intervention they are observing/ experiencing or shortly afterwards. (In practice, most observational research is non-participatory.)

[6] *Focus Groups in Feminist Research,* Madriz, 2000, in Denzin and Lincoln (eds) Handbook of Qualitative Research. Sage: Thousand Oaks

Surveys	Survey or questionnaire data provides structured, often quantitative data on people's attitudes, opinions and experiences. It may be possible to repeat surveys to map changes in these factors during the life of the policy. This means that surveys can provide statistical data to understand the people, organisations and areas affected by a policy at one or a number of points of time. Depending on how the survey is set up, this can provide data that can be generalised to the whole population of interest. Surveys may be administered in a number of ways including face to face, telephone, internet and postal, each of which has positive and negative implications with regard to issues such as response rates and cost. Questionnaires are most often used to collect quantitative data but can also contain free text questions to collect qualitative data. When designing a survey it is important to consider what sample of participants and what type of analysis will be needed to answer the research questions and this should be built into the evaluation design. (Further information on survey design is provided in supplementary guidance.)
Consultative and deliberative methods	This describes methods that are used for consultative purposes (for example by local government). Boundaries between consultative research and other types of qualitative research are not absolutely clear cut, and some consultative methods involve the application of established research methods to situations where issues are being debated or deliberated. These types of methods will tend to be used when analysts and policy makers want to go beyond exploring people's views and behaviours, to getting them to come up with, or appraise, solutions and strategies. A wide range of public participation methods might be used including meetings, interactive websites, citizens' panels and juries, deliberative polls and participatory appraisal. Consultative research generally involves intensive exercises with relatively small groups, and thus raises questions about value for money and representativeness. However, well-conducted consultative research will help to highlight and explain areas of difference, as well as agreement, among participants. A careful balance therefore needs to be struck between the need for consultative research to identify an agreed way forward and the danger that it produces an artificial consensus.
Statistical analysis of quantitative data	A number of sources of quantitative data (including administrative and monitoring data, survey data, and numerical case file data) can provide statistical data on a policy's delivery that is very useful to a process evaluation. For example, quantitative data may be used to calculate numbers of participants receiving an intervention, their characteristics and initial information about costs.
Document analysis	Access to and analysis of documents relevant to the policy being evaluated can provide rich data on all aspects of the policy, including direct commentary on it by those involved in its implementation. These might include computer records, case files, referral letters, diaries, pictures etc. These data can be collected and analysed using appropriate content analysis techniques.

Ethnography	Ethnography is a method used by anthropologists which has been adopted by social researchers more generally. It is the detailed description of a culture, group or society, and of social rules, mores and patterns around which that culture, group or society are based. Ethnography is able to elicit the cultural knowledge of a group or society and also involves detailed investigation of patterns of interaction within it, in order to understand the values, processes and structures of that group. Ethnography tries to study social groups and activity in as 'natural' a way as possible. Observation, listening, remembering and detailed note taking are key techniques for researchers using ethnographic or participant-observation methods of inquiry. Amongst other benefits, this type of data can provide robust evidence on how front-line agencies work, identify variations in the social and cultural environment within which policies, projects and programmes are expected to work, and key personnel who might operate as "product champions" for policies, programmes and projects.

8.29 Whichever research methods are used it is important that the collection, analysis and presentation of data for process evaluation, action research and case studies follows best practice. This should include consideration of sampling strategies where appropriate and an understanding of how the achieved sample (the range and characteristics of the people or organisations that took part in the research and the amount of non-response and missing data there was) will affect the presentation of findings (for example how tentative or firm conclusions should be and how the sample is described). Guidance on sampling for the collection of qualitative data is provided in supplementary guidance. It should also inform how far, if at all, findings from a study of a particular policy can be generalised. Particular issues for sampling in qualitative research are discussed in Box 8.C.

8.30 Analysts should also reflect on the quality of data that has been collected (particularly when utilising monitoring data that has not been generated specifically for the evaluation), and also whether chosen methods of analysis are appropriate to the data collected and to answer the research questions. Whilst these issues are noted here to aid reflection on how to present findings from implementation and delivery evaluations they are issues that should be borne in mind for all types of evaluation and research.

Box 8.C: Key principles for sampling in qualitative research

Qualitative research sampling has a quite different logic from that of quantitative research. The objective is to select the individual cases that will provide the most illuminating and useful data to address the research questions. The intention is not to provide a precise statistical representation of the research population but to reflect aspects of its diversity which are expected to generate insight. The two main approaches are:

- Purposive sampling: sample cases are chosen deliberatively to represent characteristics known or suspected to be of key relevance to the research questions. These selection criteria are set at the first stage of evaluation design, based on existing research, expertise, or hypotheses. The composition and size of the sample is then determined and individual cases selected to fit the required composition.
- Theoretical sampling: in this case the researcher makes decisions about the type of data to collect and participants to involve next as the study proceeds, on the basis of emergent theory from their analysis of initial data.

Qualitative samples need to be large enough to include key subgroups and to reflect diversity. The emphasis is on mapping and understanding issues, rather than counting or numerical representativeness. In fact, large samples can be a hindrance as data gathered in qualitative research are rich and intensive. Depth lies in the quality of data collection and analysis, not quantity. The appropriate size of a sample will vary and is always a matter for judgment, but it also needs to be reviewed during fieldwork and as fieldwork draws to a close so that gaps in sample coverage can be filled. The same principles apply for group data collection methods, such as group interviews. Finally, the sample frames used in qualitative research are varied, as in quantitative research, and might include existing data sources such as survey samples, administrative records, registers or databases, or sources which are generated specifically for the research.

8.31 In summary, process evaluations, action research and case studies can use a range of methods, both quantitative and qualitative, which provide important information about how a policy has been implemented and delivered. They cannot, however, conclude whether a policy was successful or not, this can only be captured through impact evaluations, as discussed in Chapter 9.

9 Empirical impact evaluation

Key points

- Empirical impact evaluation seeks to find out whether a policy caused a particular outcome to occur. It requires both a measure of the outcome and a means of estimating what would have happened without the policy, usually using a comparison group.
- Empirical impact evaluation is not feasible for every policy, especially if there is no comparison group. It may also be constrained if data are not available, or are too noisy, on the things it is necessary to measure.
- Impact evaluations cannot be guaranteed to produce the correct answer. There is always some risk of concluding that a programme works when it does not, or that it is ineffective when it has a real impact. To some extent the risks can be mitigated by careful design of the research, and sufficient investment in data collection, but they also depend on, among other factors, the actual size of the impact.
- The comparison group may have different outcomes from the policy group because of the way it was selected, rather than because of the policy itself, making comparison "unfair". This problem is known as selection bias.
- Research designs seek to control the composition of the comparison group so that selection bias can either be avoided or taken into account. Using randomness plays a central role here, but this does not always mean a randomised control trial. Sometimes "natural" randomness present in the system being studied can be utilised instead.
- The analysis of evaluation data requires an "identification strategy" to isolate the policy effect from competing influences. This involves modelling the sources of selection bias either directly (for example, by regression) or indirectly (for example, by estimating their effects with respect to trends over time).
- Reporting of an evaluation should distinguish between descriptive statistics on the outcomes and true impact evaluation, which takes potential non-policy causes for observed changes into account. The former cannot answer the question of whether the policy caused the observed changes to occur, but the latter can.

Introduction

9.1 This chapter focuses on impact evaluations which provide a quantitative measure of the extent to which any observed changes in an outcome of interest were caused by the policy. This kind of evaluation attempts to estimate the counterfactual – that is, what would have happened to the outcome of interest had the policy not taken place – by controlling for other factors which might have caused the observed outcome to occur. The outcomes can be selected to answer a range of questions, from whether the policy achieved its ultimate objectives, to whether other, intermediate outcomes were affected, which might indicate how and why such

changes occurred. (The latter questions are also discussed in the context of process evaluation in Chapter 8).

9.2 The scope of this chapter is confined to empirical methods which isolate the effect of the policy from other factors affecting the outcome of interest through the statistical analysis of newly-collected or existing data. It does not, therefore, consider those types of impact evaluation which attribute changes in an outcome to the policy (or aspect of it) through reference to theory or existing evidence (this is discussed in Chapter 6).[1]

9.3 The formulation and analysis of the research designs used in impact evaluation require a solid grounding in statistics, and often expertise in a range of specialised techniques. The supplementary guidance provides a more detailed explanation and technical treatment. This chapter is therefore more concerned with the concepts, rather than the mechanics, of impact evaluation. To present these concepts it makes reference in places to particular research designs and statistical techniques, and as such is slightly more technical than the rest of the Magenta Book. But this is not a "how-to" guide to those techniques; rather, it seeks to explain carefully the underlying issues that arise in impact evaluation and what the techniques can and cannot do to address them. It should be useful both to analysts seeking to advise their policy colleagues on setting up evaluations, as well as to those responsible for managing externally-commissioned research as critical customers.

9.4 This chapter begins by considering what is required to conduct an impact evaluation, why it is sometimes problematic, and under what circumstances it is feasible. The next section builds on Chapter 3 and looks at the fundamental principles behind designing policies for evaluation, and how they may be applied. The important issue of "noise" is then considered. A section on data analysis follows, built around the notion of an identification strategy. The different ways in which research designs attempt to address selection bias are discussed, and some of the things that can go wrong are considered, along with advice on detecting and correcting for them where possible. Finally, there is a section on "constrained designs", including guidance on reporting results when the evidence falls short of what would be regarded as acceptable for a full impact evaluation.

Introducing empirical impact evaluation

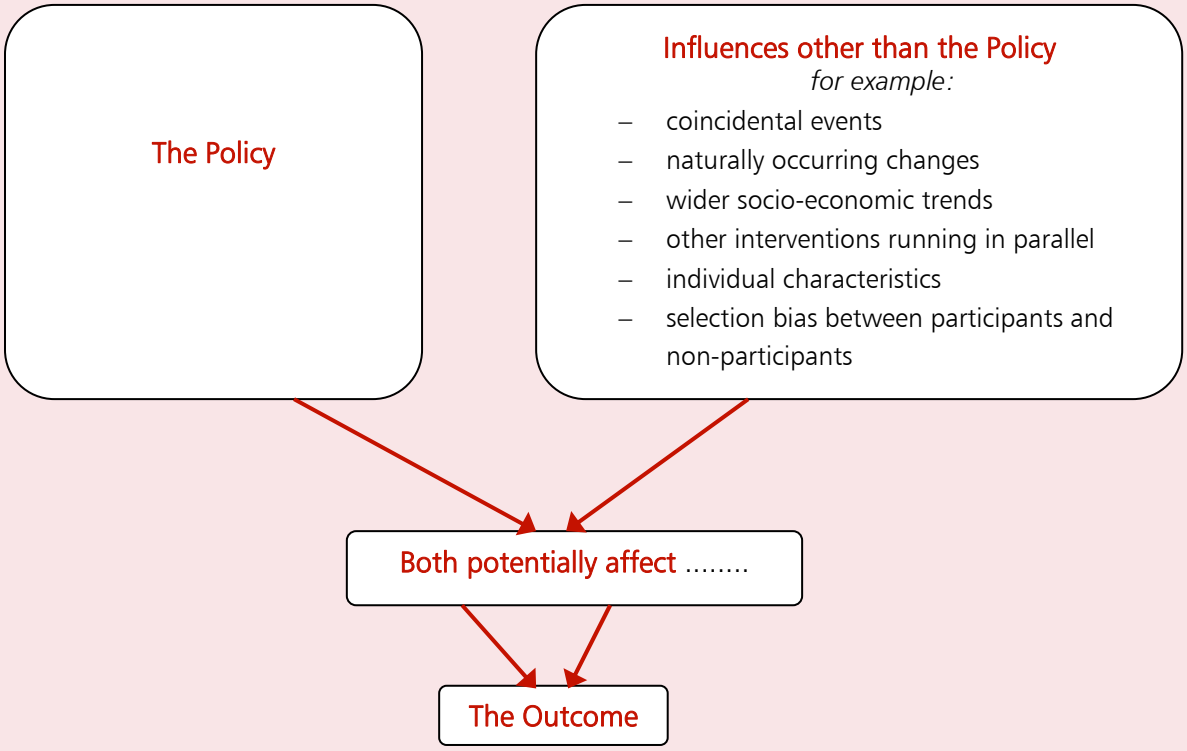
9.5 Fundamentally, evaluating policy impact involves:

- determining whether something has happened (outcome); and
- determining whether the policy was responsible (attribution).

9.6 The first of these points lies in the realm of descriptive statistics and is an important first step which has its own challenges. But it is the second point – establishing attribution – that is the defining feature of impact evaluation. This second stage is frequently the more challenging of the two, and can restrict the types of policies for which impact evaluation is feasible. The main problem is that other causes outside of the policy might have affected the outcome, as illustrated in the influence diagram in Box 9.A. The challenge of impact evaluation is to separate the effects of the policy from the other influences.

[1] The rest of this chapter uses impact evaluation to mean empirical impact as defined in 9.2

Box 9.A: Influences on the outcome measure



9.7 A key concept in impact evaluation is the **counterfactual** – what would have occurred had the policy not taken place. By definition it cannot be observed directly, because the policy did take place. Impact evaluation seeks to obtain a good estimate of the counterfactual, usually by reference to situations which were not exposed to the policy.

9.8 In broad terms, a robust impact evaluation requires:

- a means of estimating the counterfactual;
- data of adequate quality and quantity to support the estimation procedure; and
- that the level of "noise" in the outcome is sufficiently low to detect what might be a reasonably expected policy effect.

9.9 In practice, some or all of these requirements may be outside the control of the evaluator. To meet them often requires putting measures in place before the policy starts. For example, this could include manipulating the allocation of interventions (discussed below and in Chapter 3), and setting up appropriate data collection both to act as a baseline and during the policy intervention.

9.10 The remainder of this chapter is largely concerned with **research designs**, typically involving a **comparison group** as a means of estimating the counterfactual. But in some very simple cases, the mechanism may be sufficiently transparent that the impact can be observed directly, or through process evaluation, without the need to control for confounding factors. For example, with a project to supply water to a village in a developing country, any observed decreases in the average time household members spend collecting water might be attributed to the project

without the need for a comparison group[2]. As suggested in Chapter 2, the more "distant" are the factors or links in the logic model between which it is desired to estimate the impact, the more likely it is that there will be a range of possible explanations for any change in the outcome of interest, and the more important it will be to estimate a counterfactual. More often in public policy, the causal link between policy and outcome is an indirect one, and a counterfactual estimate is required.

When are empirical approaches possible?

9.11 The requirements mentioned in the previous sub-section cannot be met for every policy, so quantitative impact evaluation is not always an option. It may therefore be necessary to manage expectations around policies for which impact evaluation is less feasible, particularly if the policy is small scale and the additional data collection required to evaluate it would be too difficult or expensive to undertake. Box 9.B summarises the features of policies that are likely to make empirical impact evaluation either more or less feasible. These features are discussed in more detail in the remainder of this chapter; their relative importance depends on the individual policy, so not every feature is necessary for every evaluation. It is important to note that cases cannot be separated simply into "possible" and "impossible", as set out below, there are finer gradations in between with some cases being more or less likely to yield valid results.

[2] *Some Reflections on Current Debates in Impact Evaluation,* International Initiative for Impact Evaluation (3ie): Working Paper 1, White, 2009, New Delhi

Box 9.B: Circumstances affecting whether empirical impact evaluation is feasible

	MORE FEASIBLE IF…	LESS FEASIBLE IF…
Scale of impact	Direct relationship between outcome of interest and driver whose effect it is desired to assess	Complex ("distant") relationship between outcome of interest and driver of interest, with many potential confounding factors
	Large effect relative to other changes taking place is expected	Small effect is expected
	Effect is realised within a short time period (and does not vanish immediately thereafter)	Effect builds up gradually over an extended time period
Data availability: what was done where when to whom outcomes	Policy involves a distinctive change in practice with respect to identifiable subjects (individuals, institutions or areas)	Policy involves a consolidation of existing best practice, or is poorly differentiated between subjects
	Data available on individual subjects	Only coarsely aggregated totals available
	Data available on precise time periods	Uncertainty over timing of implementation (requires aggregation over time)
	Data to support evaluation collected before and during policy	Data to support evaluation not sought until policy already established
Potential comparison groups	Pilot undertaken at the start including data collection in non-policy areas	No pilot, or data available only for the pilot areas themselves
	Phased start across areas	Simultaneous launch nationwide
	Objective allocation, for example using a cut-off score or random allocation	Subjective allocation
	Accidental factors influencing allocation	Optimal targeting: a "perfect" allocation can frustrate impact evaluation by leaving no equivalent comparison group

Designing policies for effective evaluation

9.12 This subsection begins by introducing the theory behind research designs. A key part of successful impact evaluation is ensuring that a group of individuals or areas unaffected by the policy – the untreated – can serve as a comparison group. Such a group can be constructed in numerous ways, and several examples will be considered; these examples could form a basis for discussions between policy makers and analysts at the policy design stage. A separate sub-section, below, develops some of the concepts further as they apply to the analysis of the data obtained.

9.13 It is worth noting that the methods of allocating policies described in this sub-section all rely on there being something tangible to allocate. That is, the policy needs to consist of specified interventions such that it is possible to say distinctly that some individuals or areas were exposed to them, and others not (and further, that there is no impact on those who were not exposed). The methods of this chapter are not well suited to evaluating higher level-strategies, which set out aims and principles for action, unless those strategies can be unpacked into their constituent activities. The first task for the evaluator when faced with that kind of evaluation problem is to ascertain how the strategy is to be implemented: what will interventions look like on the ground, and who will receive them.

Randomness

9.14 Randomness[3] plays a central role in establishing the counterfactual to a policy. Randomness in the way policies are administered can balance out unobserved (sometimes, unobservable) differences in characteristics between the treated and untreated groups. The groups are then said to be equivalent – they differ on average only in their exposure or not to the policy. Comparisons between equivalent groups are said to have strong **internal validity** [4]: the evaluator can (under particular circumstances) infer that any significant differences between the two groups were caused by the policy, because on average the two groups are similar in all other respects.

9.15 The difficulty with evaluating actual policies is that they tend to target the most problematic or deserving individuals, institutions, locations and so on. That is, policies tend to be non-random intentionally. So even when one group is exposed to the policy and another is not, the two groups will typically be non-equivalent. Drug treatment policies, for instance, target individuals with drug misuse problems, who are likely to be different from other people in quite particular ways (for example they are more likely to be younger, male, unemployed and with an offending history than people who are not drug misusers). Allocation of the policy or intervention is then said to be endogenous to the outcome which is being targeted, because the characteristics which make an individual (or area or business) more likely to receive the intervention are also likely to affect impact of the intervention on their outcomes. Estimates of the policy effect which do not take this into account will suffer from selection bias, and simple comparisons between the treated and untreated groups are not then valid.

Research Designs[5]

The purpose of research designs is to manipulate the implementation of the policy, or to exploit features which it already possesses, in such a way that a counterfactual can be estimated. Manipulating the policy is preferable because randomness can be introduced, or non-

[3] Randomness" is used here in its widest sense, of events occurring by chance. "Randomisation", where a chance mechanism is introduced into policy allocation quite deliberately, is an important special case, but is not the only way in which randomness can occur.

[4] Internal validity and external validity are two terms often used to describe the strength or otherwise of an evaluation design. They can be explained by reference to the evaluation of a programme piloted in a small number of areas. Internal validity is where we can estimate the impact on the people who took part in those areas; external validity is where you would get the same impact in other areas, or at another time

[5] This chapter of the Magenta Book uses the term "research designs" to include both experimental and quasi-experimental designs.

randomness addressed, by design. Otherwise, a successful evaluation might need to rely on the required characteristics appearing by accident, and this is by no means guaranteed to be the case. So how should a good comparison group be obtained in practice? There are two approaches which will be considered in turn:

- Experiments, or Randomised Controlled Trials (RCTs). The defining feature of this approach is that the assignment of eligible individuals (or areas) to treatment is explicitly randomised, as it were by the flip of a coin.
- Quasi-experimental designs (QEDs). These designs do not use explicit randomisation, but address potential non-equivalence of the treated and untreated groups in other ways.

Randomised Controlled Trials (RCTs)

9.16 An RCT is usually regarded as the strongest possible means of evaluating a policy, because of its ability to balance out the differences between the groups. As was pointed out above, policy allocation by its very nature is not usually random, so opportunities to use it in practice are limited. If the policy is by intention "experimental", however, then randomised allocation might be more readily acceptable. In these instances the policy will usually begin with a pilot in a restricted number of areas only.

9.17 Randomisation can face some practical hurdles in a social research context mainly rooted in the difficulty in maintaining complete control over the allocation process, and the near impossibility of "blinding"[6] for the sorts of interventions being tested in public policy. It may get excluded because of (sometimes unfounded) concerns over ethical issues[7], or because an "experimental" design is at odds with a desire to focus the efforts of the policy in a targeted way. Both these arguments presuppose that the intervention is effective in the first place, which it is the purpose of the evaluation to ascertain (unless strong existing evidence already supports it – in which case the value of a pilot, randomised or otherwise, might be arguable anyway). In the latter case it may still be possible to incorporate randomisation for a limited subgroup of eligible participants. Boxes 9.C and 9.D provide two examples of randomised control trials.

[6] Blinding" refers to feature of experiments in which neither participants, nor those interacting with them, are aware who is in the treatment group and who in the control group. This is most easily understood in the context of drug trials, where it is necessary to guard against the well-know placebo effect, whereby somebody who believes they are getting an improved treatment can respond positively regardless of whether there is any direct effect. To overcome this, treatment and control group members receive apparently identical treatments, and have no way of knowing which they are receiving. Further, because those monitoring their progress may – consciously or unconsciously – record results differently for those they know to be receiving the alternative treatment, they also need to be 'blind' to the allocation. In social policy experiments, this is extremely difficult to achieve. For example, if the 'treatment' was a course of training, it would be readily apparent to all who was receiving it and who was not.

[7] Sometimes, perhaps because it is less common as a means of evaluating social policies, it is supposed that choosing who will benefit from a pilot intervention by random allocation is somehow unfair or unethical. Yet it is no more unfair than allocating treatment on the basis of where somebody lives, which is a much more familiar process.

Box 9.C: An example of a randomised control trial

Evaluation of HM Prison Service Enhanced Thinking Skills programme (Ministry of Justice)

There is considerable international evidence, from various systematic reviews and meta-analyses analysing a large number of offending behaviour/cognitive behavioural programmes, to support the effectiveness of these programmes in reducing re-offending. However, the evidence from research in England and Wales on the effectiveness of these programmes is mixed. This project looked at a shorter-term impact than reconviction to assess the efficacy of the Enhanced Thinking Skills (ETS) programme in the UK.

The main aim of the project was to examine the impact of ETS courses on 'impulsivity' in adult male offenders over the age of 18, and to investigate whether changes in levels of impulsivity were reflected in changes in prison behaviour. Impulsivity, a behaviour targeted for change by ETS courses, was chosen as the main outcome measure as there is research evidence of links between impulsivity and offending (e.g. Mak, 1991, Eysenck and McGurk, 1980).

Further analysis of individual cases was undertaken to investigate evidence of reliable clinical change. A secondary aim was to explore a range of other psychometric measures in the ETS test battery to evaluate the wider effectiveness of ETS courses, and to examine background factors of offenders, and institutional factors, in order to determine which offenders benefit most from ETS programmes, under which conditions. This was to see whether there were improvements to be made in course content, targeting of offenders, and selection of the most appropriate assessment methods.

A Randomised Controlled Trial (RCT) was selected in order to minimise bias in allocation of participants to groups. However, RCTs have rarely been conducted in UK prisons, largely due to ethical concerns about withholding treatment from a control group. These concerns were avoided by adopting a waiting list control design in which all eligible offenders ultimately received treatment. Offenders with a priority need to attend a course were assigned to a parallel cohort group prior to the random allocation, and their data were analysed separately.

However, it is not possible to assess the impact of the ETS course on reoffending through this study as all participants eventually received the intervention (hence there was no control group for reoffending analysis).

The study demonstrated positive results with regard to the (short-term) effectiveness of the ETS programme. More specifically, the study revealed that ETS programmes are effective in reducing both self-reported impulsivity and the incidence of prison security reports in adult male offenders.

Additionally, the analysis of background factors raised a number of issues relating to which offenders benefit from ETS programmes and how others may be assisted to benefit more. This could lead to better targeting of offenders for ETS courses, and adaptation or development of programmes specifically designed to meet different needs. The evaluation also raised questions about the relationship between offence type, impulsivity and effectiveness of ETS courses with different offence groups, which may lead to a greater understanding of particular types of offending and ways to reduce offending.

For more information read the evaluation reports online.[8]

[8] *Evaluation of HM Prison Service Enhanced Thinking Skills Programme,* McDougall, Perry, Clarbour, Bowles and Worthy, 2009), Ministry of Justice Research Series 3/09 http://www.justice.gov.uk/publications/

Box 9.D: An example of a randomised controlled trial

Primary School Free Breakfast Initiative (Welsh Assembly Government)

The Welsh Assembly Government made a commitment to introduce free healthy breakfasts in primary schools in Wales from September 2004. By January 2007 all primary schools had been offered the opportunity to participate with more than 1000 schools involved. The coalition Government's 'One Wales' commitment of 2007 was to maintain the programme.

A cluster randomised controlled trial, with an embedded process evaluation, was commissioned in May 2004 to assess the impact of providing free breakfasts in schools on children's eating habits, concentration and behaviour. The cluster randomised design was chosen because randomisation at the individual level was not possible as the programme was implemented at the whole school, rather than individual pupil, level. The cluster randomised approach is often chosen for settings based interventions, such as schools or workplaces.

The study recruited 111 primary schools, of which 56 were randomly assigned to the control condition and 55 to the intervention. Data were collected at each for three time points: baseline, four month and twelve month follow-up. In each school, one Year 5 (age nine to ten years) and one Year 6 (age ten to eleven years) class were randomly selected, resulting in a repeated cross-sectional survey of approximately 4350 students at each data point.

The evaluation team concluded that the results provided partial support for the scheme as a dietary intervention. The 12 month follow-up found that:

- 41 per cent of pupils in intervention schools that had started a scheme attended at least once a week, with 30 per cent of these attending each school day;
- the quality of breakfasts eaten improved among pupils in intervention schools, with consumption of items such as fruit, vegetable and wholemeal bread increasing;
- more positive attitudes towards breakfast were found in intervention schools;
- there was no significant effect on breakfast skipping, episodic memory or inattention; and
- the absence of a decrease in breakfast skipping was suggested to be unsurprising, given the relatively small number of breakfast skippers at baseline. The evaluation team recommended that further work be undertaken in promoting pupil uptake and reach to address the breakfast skipping issue.

There is an existing evidence base suggesting that breakfast consumption influences cognitive functioning and classroom behaviour. The lack of impact on cognitive functioning in this study is likely to reflect the fact that this was analysed at school level, influenced by uptake, rather than tracking change at the individual level.

For more information read the evaluation reports online[9]

[9] *An Evaluation of the Welsh Assembly Governments Primary School Free Breakfast Initiative*, Murphy, Moore, Tapper, Lynch, Raisanen, Clark, Desousa, and Moore, November 2007, http://www.wales.gov.uk

Quasi Experimental Designs (QED)

9.18 Suppose, however, that randomisation has for whatever reason been rejected. A QED should then be considered. Fundamentally, these designs use one of two approaches (or sometimes, a combination of both):

- exploiting natural randomness in the system to obtain a comparison group that is "as good as random", insofar as group membership does not depend on any factors likely to affect the outcome; or
- acknowledging that the comparison group is non-equivalent, but obtaining it in a way that allows selection bias to be modelled (typically in some form of regression model).

9.19 Some of the options for obtaining a comparison group are shown in Table 9.A. It is worth mentioning that phased introduction is arguably the most robust approach of those listed, and if full randomisation is deemed unsuitable then this approach should always be given serious consideration at the policy design stage.

Pilots

9.20 Designing evaluation for a pilot involves essentially the same considerations as for a larger scale policy, but there are some additional caveats:

- If the pilot is on a very small scale, its effects may not scale-up as expected. There could be greater enthusiasm among those involved with the initial piloting than would be encountered more widely. The dynamics of administering the intervention could be rather different among a small group than would be the case with more widespread implementation. Therefore, unless the pilot is simply a proof-of-concept it should try to operate through the same administrative structures as will be used in an eventual wider policy.
- Piloting can provide the evaluator with a ready-made comparison group in the form of areas similar to those where the pilot took place, but not operating it. However, unless the evaluation uses only administrative data, it will be necessary to carry out data collection in the comparison areas as well. That could be more problematic as staff working in those areas will face an additional burden from taking part in the evaluation, without gaining the potential benefits of early assignment to the new policy. An alternative is to allocate treatment and control groups within a pilot area.

Addressing non-randomness

9.21 Whether the comparison groups in Table 9.A are "as good as random" depends on the details of how they arise, or are constructed, for any particular policy. For example, if a phased introduction is used and the assignment of areas to waves is essentially arbitrary (or indeed, has actually been randomised) then it is reasonable to compare areas that are in the first wave with those that are not. On the other hand, if the highest priority areas are placed in the first wave, then the comparison group must be regarded as non-equivalent, and selection bias is a real possibility. Another issue is that consistency of delivery may change over time, especially if the first wave embraces the new policy more enthusiastically than the later waves.

Table 9.A: Example sources of a comparison group

Phased introduction	The policy is phased-in in "waves" rather than introduced simultaneously in all geographical areas. During the period when not all areas are implementing the policy, the areas assigned to the later waves can form a comparison group for the earlier ones. This is similar to piloting but can be more rapid, as there is no presumption of an evaluation being completed on the first wave before the second is launched. It does however require that the impact occurs on a short timescale, relative to the interval between waves, and that the details of the policy do not change between waves. It also assumes that behavioural effects and impacts are not triggered with the policy announcement.
Intermittent application	If the policy involves interventions that are very short term in nature (such as media campaigns, for example) then applying these in intermittent bursts, where different areas receive them at different times, can be used to compare active areas to quiet areas. Once again, the impact needs to occur on a short timescale if this approach is to be used.
Accidental delays	Policies that begin simultaneously nationwide are problematic with regard to area-based studies. But it is worth investigating whether for practical reasons some areas went ahead more rapidly than others. If a frank account of the degree of implementation can be obtained from each area, a comparison group of "slow starters" might emerge. If there is a "postcode lottery", the evaluation can make use of it.
Intensity levels	If simultaneous introduction of the policy is unavoidable, another strategy is to evaluate based on differing modalities or intensities in different areas. Where there is local discretion on how the policy is implemented, it may be possible to classify different areas according to the decisions they made; where some areas receive enhanced funding or run additional interventions, these areas may be compared with those operating only the basic policy. In both cases, however, the impact estimated is for the difference between variants of the policy rather than for the policy as a whole.
Administrative rules	A comparison group may arise as a result of having to "draw a line" to decide who receives an intervention. For example, an offender aged 17 years 11 months may be very similar to one aged 18, but treated completely differently by the criminal justice system.
Targeting	Whenever a policy is intended only for a certain subpopulation (of individuals or areas), those unaffected by it form a potential comparison group. Almost always in this scenario, the comparison group will be non-equivalent.
Non-volunteers	Where participation in a programme is voluntary, those who do not participate can be a source of a potential comparison group. Such a comparison group will always be non-equivalent and controlling for the differences will be challenging.

9.22 So, if the comparison group is not "as good as random", what can be done about it? At the policy design stage, the points to consider are:

- how allocation to treatment will occur (whether intentionally or accidentally) and how this might lead to non-equivalence;
- what data can be captured on the known characteristics of individual subjects, for use in subsequent analysis; and
- whether it is possible to design the policy so that allocation uses an objective rule, based on these known characteristics of those who might be targeted. If it can, then evaluation will be stronger, because the sources of selection bias are all known about.

9.23 The topic of modelling selection bias is developed further in the sub-section on data analysis below.

9.24 In relation to the third bullet above, a special case of an objective allocation rule is to form an "assignment score" based on the level of need of each individual. Those above a certain score receive the intervention. An elegant method of analysis is then offered by the regression discontinuity design (RDD; supplementary guidance will provide more detail on RDD). This design is based on examining the boundary between the "only just eligible" and the "not quite eligible". The scores (both of participants and non-participants) need to be captured for future analysis. The main drawback of the RDD is that the results only apply directly to those at the boundary, and may not be an accurate indicator of the effects on individuals with characteristics away from the threshold.

9.25 Voluntary participation in an intervention is an example of non-randomness that is a particular problem for the evaluator. It is tempting to use individuals who opted not to participate in some scheme (or chose not to complete the course) as a comparison group for those who did, but the fundamental flaw with this approach is that opters-in are very likely to be different from opters-out, and in particular are likely to be better motivated. Motivation might be important if it is a significant determinant of the effectiveness of the intervention (for example educational courses being more effective with motivated students). This "self-selection" is another example of a non-equivalent comparison group, and can be one of the hardest to address. Some possible solutions are:

- attempt to control for motivation directly. However, motivation is difficult to observe by nature and standard administrative data such as demographics about the prospective participants are unlikely to capture it. Therefore, specialised surveys may be required in an attempt to elicit participants' reasons for the decision, and this can be a costly exercise. Alternatively it may be possible to find proxies for motivation. For example, studies on schemes to help non-employed people into work[10] have found that previous labour market history gives a good indication of motivation, if recorded in sufficient detail;
- carry out the analysis on the basis of intention to treat (ITT). The policy group consists of all those offered the intervention, even those who decline, and a comparison group is drawn from individuals who would have been eligible but were not offered (perhaps because they were associated with an institution that did not operate the scheme at the time)[11]. Impacts estimated on an ITT basis tend to

[10] *The econometric evaluation of the New Deal for Lone Parents,* Department for Work and Pensions Research Report No. 356. 2006. http://www.dwp.gov.uk/

[11] *The econometric evaluation of the New Deal for Lone Parents,* Department for Work and Pensions Research Report No. 356, 2006. http://www.dwp.gov.uk/

be smaller than those based on an actual treatment group, since the ITT group is diluted by non-participants, and it may not be possible to distinguish the impacts from the "noise" (see below). However this approach can have stronger internal validity and is arguably more policy relevant, since it measures the effect per person of making the policy available, which can actually be controlled; and

- examine what happens downstream of the decision to participate. If some individuals who consented were later unable to participate due to unavailability of resource or other administrative reasons (but not due to reneging, which would reintroduce selection bias) then these individuals can provide a comparison group.

Power of design[12]

9.26 Selection bias arises from underlying differences between the treatment and comparison groups, which might cause them to have different outcomes irrespective of the policy. Bias affects all members of a group, on average, in the same direction. For example, with an urban redevelopment initiative the treatment areas might be more deprived than the comparison areas. The success with which a research design is able to address these systematic differences is called the strength of the design. Strength is a subjective concept and is not a numerical quantity.

9.27 In addition, there are also random differences between individual members of both groups which affect their outcomes independently. For example, some pupils taking a school test might do well just through luck or less well due to "having a bad day", irrespective of underlying ability. These kinds of differences appear as random fluctuations or "noise" in the outcome measure. The power of a design is its ability to detect policy effects in the midst of "noise". Power is a numerical quantity – it is defined as the probability that if the true effect is of a given size, then the design will detect it with a given level of confidence, or at a given "significance level".[13] The relationship between power and strength is shown in Table 9.B.

Table 9.B: Experimental power vs strength

	Weak design Poor counterfactual or none at all	Strong design Realistic counterfactual estimate
Low power Small number of observations and / or policy effect small relative to noise	Unlikely to detect difference between groups or over time. And even if we do, we have no confidence in attributing it to the policy.	Unlikely to detect difference between groups. But if we do, then we have confidence in attributing it to the policy.
High power Large number of observations and / or policy effect large relative to noise	Very likely to find a significant difference between groups but this does **not** mean it can be attributed to the policy.	Very likely to find a significant difference if there is a real policy effect. We have confidence in attributing this difference to the policy.

9.28 Power depends both on the size of the effect on the outcome relative to the natural variation in that outcome (or the "signal-to-noise ratio") and on the number of observations. It also depends on the research design being used. As an illustrative example, Box 9.E is concerned

[12] This section assumes a basic knowledge of statistics, for example hypothesis testing and the t-test.

[13] Significance is a function of the "noise", or variance in the outcome of interest. If the change in an outcome is said to be "significant at a five per cent level", it means that, given the natural variance in that outcome, a change of such a magnitude would only be expected five per cent of the time.

with the power of a simple test of difference between two means (based on an unpaired t-test)[14] as might be used to analyse the results of an RCT. It shows the number of observations required to achieve a power of 80 per cent at a significance level of five per cent for a range of signal-to-noise ratios. What is quite striking is that if the size of the policy effect is similar to or greater than the noise, then quite small sample sizes (e.g. 15 treated and 15 controls to give a combined sample of 30) are adequate; but as the relative signal size decreases, the number of observations required to detect it increases dramatically. For example, a signal-to-noise ratio of 1:8 would require a combined sample size of 2000.

Box 9.E: Sample size requirements for a simple t-test

Signal: Noise	Total N
4:1	6
3:1	8
2:1	12
1:1	34
1:2	130
1:4	500
1:8	2000
1:25	20,000
1:100	300,000

The table shows the combined sample size (treatment + comparison group) required for an unpaired t-test if it is to have a power of 80 per cent at a significance level of five per cent. The "signal" is the mean treatment effect and the "noise" is the residual standard deviation.

9.29 Is it possible to predict the signal-to-noise ratio, and hence the required sample size, in advance? The expected noise level may be estimated from historical data if available, but the signal – that is, the predicted policy effect – is trickier. It may be possible to estimate it from the logic model of the intervention, reasoning along the lines of how many people will be affected and what might be a realistic change in their behaviour as a result. It may alternatively be possible to calculate how big an effect would need to be in order for the policy to be considered a success (either in political or cost-benefit terms), and to say that if the actual impact was less than this it would not matter if it was undetected.

9.30 The implication is that impact evaluation is only worth attempting on policies where the expected impact is large enough to stand out from random fluctuations in the system under study. How large is large enough depends on how well modelling is able to explain the differences between individual group members that arise in the absence of the policy. If it is possible to predict accurately what an individual's outcome "should" be, then any impact on that outcome due to the policy is easier to detect. If, however, the drivers of these differences are poorly understood, or are not captured in any model, then the noise level will be higher. Small schemes or minor refinements to practice that may still be good value for money and entirely worthwhile on the basis that "every little helps" cannot then have their impact evaluated, because the ability of research designs to detect the "little" from the midst of many

[14] Significance is a function of the "noise", or variance in the outcome of interest. If the change in an outcome is said to be "significant at a five per cent level", it means that, given the natural variance in that outcome, a change of such a magnitude would only be expected five per cent of the time.

competing drivers is too limited. In areas of study where the level of noise is large, this can even lead to a pessimistic conclusion that "nothing works".

9.31 If the final outcome measure is too noisy, the evaluator may still seek to detect a change in some intermediate outcome identified in the initial logic model (although the task still remains to translate the result into an estimate of final impact – a task which might be approached through reference to, for instance, theory-based evaluative models, see Chapter 5). Examining intermediate outcomes is a useful exercise in its own right, as it can help to understand the mechanism of the intervention. For example, it would be very hard to detect the effect of an advertising campaign promoting healthy eating on ultimate health outcomes, but a survey which showed some behaviour change, for instance higher consumption of fruit and vegetables in those areas subject to the campaign, might provide evidence that the campaign had had some success in communicating its message.

9.32 Even if it is not possible to detect an impact, it might still be possible to answer the question: in a best case scenario, how good might the policy benefit be, and yet have a reasonable chance of failing to be detected by the study? This could be important if it turns out that, even under such an optimistic scenario, the costs of the policy would outweigh its benefits. This can be done by deriving, from power calculation, the smallest detectable effect and then comparing the benefit that would be obtained from this impact with the cost of the policy. Notice that the two possible outcomes of this method are not symmetrical: it might find that the policy would not be value for money, even if it managed to generate the smallest detectable effect; or it might just be inconclusive, in the sense that the policy might be value for money, even at some effect size smaller than the smallest detectable.

Strategies for analysing quasi experimental data

9.33 The issues to be considered when analysing the data obtained in a study mirror those which arise at the policy design stage: identifying a comparison group and addressing selection bias. Indeed, if the policy is designed appropriately, many of the potential problems will have already been addressed. This sub-section revisits those issues from the standpoint of the tools used for analysing the data. Once again, technical details of these tools are provided in supplementary guidance.

9.34 Impact evaluation is often carried out in combination with a process evaluation. It is helpful to draw on contextual information to understand what the data truly represent. For example:

- What is meant by "treatment" in the context of the policy, and how might outcomes plausibly unfold over time as a result?
- Are the outcomes being analysed valid measures of the policy's aims? Have there been any changes in the way information is recorded that could have influenced the results?
- Was the policy implemented as intended? Are there any special cases or exceptions to be aware of?

9.35 Regression modelling plays a central role in the analysis of experimental and quasi-experimental data. Regression provides estimates of association between two or more variables, and whether that association is "significant" in the sense of being expected to exist in some wider population as opposed to just having arisen by chance in the data at hand. A regression output in isolation, however strong the "significance", is silent on the question of whether the association is causal. So the fact that there is a "significant policy effect" is not necessarily evidence that the policy caused any change to occur. (Further technical detail on regression is provided in supplementary guidance.)

9.36 Whether the analyst can go further, and infer that the policy did cause the change, depends on the context of the study. It is valid to do so if an effective random allocation scheme was used: the data are then described as "experimental". More often than not, however, allocation will not be random. What the analyst then requires is a strategy for using the observational (that is, non-experimental) data to approximate an experiment – known as an identification strategy (Box 9.F).

Box 9.F: Questions to guide an identification strategy

- Realistically, **how big** is intervention impact expected to be? Is it going to be distinguishable amid "noise"? If not, it may well not be worth proceeding any further.
- What is the (actual or projected) **comparison group**?
- Other than the policy, what else might affect the outcome?

  Is the "**what else**" effectively **random** between the treatment and comparison groups?

  So is it reasonable to believe the comparison group is **equivalent** to the treatment group (apart from the treatment, of course)?

- If it is not equivalent, it is possible to:
  - **Control** for the differences by modelling them directly?
  - Find **subsets** of the comparison and treatment groups that are more nearly equivalent (e.g. by matching)?
  - Show that the differences are **unlikely to affect** the outcome measure (e.g. from historical data, studies elsewhere)?

And do different variants on the above give similar answers (sensitivity testing)?

If not, what characteristics of the groups are driving the discrepancies?

9.37 The first part of the strategy involves finding one (or more) comparison groups. Ideally, the design of the policy allocation will already have provided one. Usually, the comparison group will be a group of actual subjects (people, institutions or areas). If no actual group can be identified then the comparison group might be a forecast or projection (but see paragraph 9.49).

9.38 The strategy next has to consider whether the comparison group is equivalent – that is, whether it is a plausible match for how the treatment group would have looked had it not received the treatment. For example, if the comparison group consisted of individuals who did not participate in treatment for purely administrative reasons, such as non-availability of a caseworker at the right time, it could be regarded as "as good as random" because the administrative reasons for non-participation are unrelated to the characteristics of the individuals.

9.39 Provided some basic conditions are met, control groups from RCTs, and equivalent comparison groups as defined above, provide an estimate of the counterfactual "as-is" and analysis might be relatively simple. Ideally it might only involve conducting a t-test[15] comparing the figures for the outcome of interest for the two groups; a significant difference is interpreted as evidence of a policy effect. Even in these simple cases, though, the analyst should always examine the assumptions critically in the way described in the next sub-section. If data are available on

[15] Note that a t-test may be regarded as a special case of a regression analysis: it can always be formulated as a regression model with appropriate use of dummy variables.

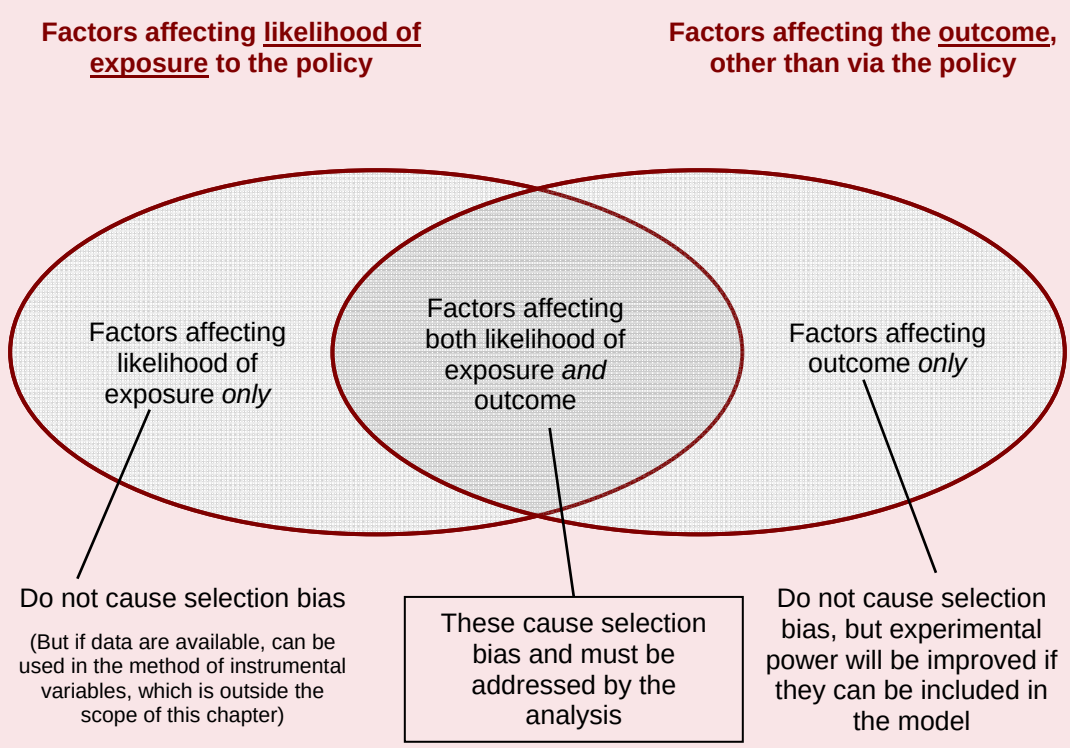
additional factors thought to affect the outcome, even if they are not sources of selection bias as such, then it is worthwhile to include these additional factors in the model. This is true for all the models discussed here, not only for RCTs. Doing so improves the power of the design.

9.40 If the groups are thought to be non-equivalent, further steps must be taken to modify the model in a way that will allow any apparent policy effect to be attributed to the policy, just as it would be for a true experiment. This means overcoming selection bias as introduced in paragraph 9.14. More specifically, selection bias arises when there are factors (Box 9.G) affecting both:

1. the likelihood of an individual being exposed to the policy; and
2. the outcome measure, other than via exposure to the policy.

9.41 For example, the level of motivation of an individual to obtain a job could affect both his likelihood to enrol on a job training programme but also how likely he would be to gain employment in the absence of the programme. So a simple comparison of programme participants with non-participants would not be a valid basis on which to evaluate the impact of the programme.

Box 9.G: Factors leading to selection bias



9.42 Factors which affect only one out of (1) and (2) above, or which affect neither of them, do not bias the results. This points to a strategy for reducing or even eliminating selection bias. If all the factors affecting likelihood of selection are known about – as might be the case if the policy had objective selection criteria – then they can be adjusted for, in one of the ways outlined below. This will be sufficient to cover everything in the intersection region of the Venn diagram in Box 9.G, and explains why accurate knowledge of the policy allocation criteria is so valuable

to the researcher.[16] (A similar strategy could be applied if all the factors affecting the outcome were known about, but this is rarer and requires very rich data.)

9.43 The next case to consider is when policy allocation is neither fully random (as in an RCT) nor fully deterministic (as in an RDD or other objective scheme). It is this middle ground that is often encountered, because the criteria leading to exposure to the policy may not be fully known to the researcher – perhaps because they involved a subjective element, either on the part of the intervention provider or the participant. The question then to consider is whether, after adjusting for factors known to affect allocation, there are grounds for believing that whatever variation in exposure remains is "as good as random". If this is a reasonable assumption then a comparison after adjusting for these factors can proceed as in the deterministic (RDD-style) case.

Adjusting for factors affecting allocation

9.44 So, if "adjusting for" some set of factors is appropriate, how in practice is this adjustment performed? Essentially there are two strategies:

- controlling for them - the relevant factors are entered as explanatory variables in the regression model. If the policy effect remains significant in this expanded model, it is interpreted as a causal effect of the policy; or
- matching - the factors are used in a technique such as propensity score matching (PSM) to select subsets of the treated and untreated individuals that may be regarded as equivalent (in the sense defined above). A simple comparison between the matched groups might then be made, as it would be for an RCT. Box 9.I provides an example of an evaluation using propensity score matching.

9.45 When deciding which strategy to use, the first point to note is that in terms of addressing selection bias, they are equivalent. The choice therefore rests on other features of the data rather than on the assumptions being made about what drives exposure to the policy. A brief description is provided in Box 9.H.

[16] Within this framework, the regression discontinuity design (paragraph 9.22) may be seen as a special case of perfect objective allocation. By definition, all the factors affecting exposure are known about, because they are encapsulated in just one variable – namely the assignment score. This is what makes the RDD so effective in addressing selection bias.

Box 9.H: Control using regression

Control using regression is simple to implement, provides an estimate based on all the data, and allows the effects of relevant factors to be estimated individually. But regression models have to assume that the underlying relationship between variables has a particular shape, or "functional form" (in simple cases, just a straight line).

Departures from these assumptions turn out to be particularly problematic when the same factor strongly affects both exposure and outcome, as unfortunately, tends to be the case with quasi-experimental studies. A further issue is that the regression model will be based in part on individuals whose likelihood of participating is extremely low, and whose outcomes may bear little relationship to those of individuals who do actually participate. Matching designs have the advantage that they do not require any functional form assumption, but have their own difficulties.

For instance, depending on the success of matching they may involve discarding a significant portion of the data – especially if the targeting of the policy is such that the untreated contain few good matches for the treated. Matching can also be more complicated to implement.

The issues are technical and for a more detailed discussion of these points the reader is referred to Bryson et al.[17]

9.46 It is important to realise that both the matching and controlling approaches depend on the assumption that all sources of selection bias have been captured in the data available to the researcher. If there is "selection on unobservables", and other, unknown, factors affect the probability of treatment, then regardless of how elaborate the modelling procedure it is simply not possible to tell how much, if any, of the estimated policy effect is real, and how much is due to the unmodelled selection bias. A common example of selection on unobservables is motivation of participants in voluntary schemes, discussed earlier. A second example is personal knowledge of the candidate (for example, by a teacher, social worker, probation officer, etc.) which might affect that professional's decision to put the candidate forward for intervention. Where this is the case, an alternative approach that does not depend on identifying all the individual sources of selection bias may be stronger.

[17] The use of propensity score matching in the evaluation of active labour market policies, Bryson, Dorsett and Purdon, Department for Work and Pensions Working Paper No. 4 (2002). http://www.dwp.gov.uk/

Box 9.I: An example of an evaluation using propensity score matching

New Deal for Lone Parents Evaluation (Department for Work and Pensions)

New Deal for Lone Parents (NDLP) is targeted at lone parents on Income Support (IS). It tries to place job ready lone parents into paid work and to prepare lone parents not currently in the market for work for entry to the labour market. NDLP was subject to a rigorous evaluation, one component of which was to measure the counterfactual (i.e. the additional benefits of the programme). However, there were a number of challenges in meeting this aim:

- a matched area comparison was not possible because the programme was implemented in all areas of the UK;
- all members of the target group were invited to join NDLP so there was no opportunity to select a control group from individuals that had not been invited; and
- due to the relatively low take-up of NDLP, the maximum possible effect on aggregate numbers on Income Support was small, so that a time series approach to the impact assessment was not feasible.

Propensity Score Matching was chosen because it allowed a comparison sample to be drawn from lone parents who had chosen not to participate in the programme. Participants and the comparison sample were matched on their "propensity score" – the probability of participating conditional on all the factors that affect both participation and outcomes.[18] A key issue in implementing this approach was that it was well-known that motivation of individuals is linked both to participation and outcomes, and that failure to control for this would almost certainly bias the results. This was addressed by explicitly collecting baseline data on motivation/attitudes through a carefully designed survey.

A stratified sample of approximately 70,000 lone parents was selected from Income Support records using data from August and October 2000. The sample was restricted to those who, at the time of selection, had not participated in the programme. Administrative systems were used to identify those who participated and these formed the sample of "participants". The rest of the sample was categorised as non-participants, the sample of participants were matched to a comparison sample of "non-participants", using a combination of administrative and survey data, including that on attitudes.

NDLP appears to have had a large positive impact on entries into work. After six months, 43 per cent of participants had entered full-time or part-time work compared to 19 per cent of matched non-participants. This suggests that 24 per cent of lone parent participants had found work that would not otherwise have done so.

Similar effects were observed when looking at the exit rate from Income Support; NDLP appears to dramatically increase the rate at which lone parents leave benefit.

There is no evidence to suggest that NDLP jobs are not sustainable: on the whole, participants left jobs less quickly than non-participants (12 per cent of participants left work (of 16 hours or

[18] Many studies tend to match on whatever observable characteristics are available, whether these are the actual factors affecting participation and outcomes or not. In fact, in many situations these factors are either unobservable or simply not known, and hence should be subject to additional hypotheses.

more per week) within six months compared with 14 per cent of matched non-participants).

For more information the report is available online [19] as is a subsequent more detailed technical assessment of the results.

Making use of time trends: Difference in difference

9.47 One alternative is the method of difference in difference (DiD; or "two group pre- and post-test design"). Once again, the aim is to adjust for those factors that affect both likelihood of exposure to the policy and the outcome from the policy, and hence that might cause selection bias. But this method does so without having to know what all these individual factors are, and as such is far less data hungry. Instead, it works by comparing how trends in associated outcomes change between treated and untreated groups over a time period relevant to the intervention. While the unobserved factors might affect the outcome, if they do not affect trends in the outcome, then the trends for both groups in the absence of the policy will be the same. This is the so-called parallelism or "common trends" assumption. Any significant difference in trends is therefore interpreted as a policy effect.

9.48 The parallelism assumption should always be verified where possible, either by examining the pre-policy trends in historical time series data or from previous studies. Where the assumption does hold, DiD is a useful method that is able to address selection bias in the absence of rich information about the individuals under study. But the parallelism assumption should not be automatically assumed true, and a DiD approach would not be recommended if, for example, data are only available at two time points (before and after the implementation of the policy). Box 9.J provides an example of an evaluation using a difference in differences method.

Box 9.J: An example of a difference in difference evaluation

Multifaceted evaluation of Workplace Health Connect (Health and Safety Executive)

The Workplace Health Connect (WHC) pilot ran from February 2006 until February 2008. It was a free, no-obligation, service which aimed to provide small and medium-sized enterprises (SMEs) with advice on workplace health issues to increase the level of healthy workplaces across England and Wales.

The primary research questions were:

- whether the visit service made a net impact on the incidence and duration of occupationally related ill-health and injury; and
- what the costs, benefits, and perceived barriers to full use of the service were.

A multi-stranded methodological approach was developed to meet the objectives, which included surveys to collect data on service inputs; consider regional experiences; provide a comparator group; develop user case studies and; determine costs involved in being a WHC pilot user.

[19] *Evaluation of the New Deal for Lone Parents: technical report for the quantitative survey; DWP Working Age Report 146,* Phillips, Pickering, Lessof, Purdon and Hales. 2003, http://www.dwp.gov.uk/

In order to define the counterfactual for the quantitative impact study data was analysed on employers operating in regions where the WHC workplace visit service was not provided. These employers were the "comparator" group for WHC pilot users. Organisations in areas where WHC pathfinders were not in operation were selected for participation in the impact survey on the basis that they were similar (in terms of their size and sector) to those participating in the WHC pilot. Their outcomes, therefore, constitute the best available estimate of the counterfactual.

The impact survey dataset included 520 organisations within the "treatment group" and 1609 organisations from the "comparator group". Each organisation was interviewed twice, with a year between interviews, regarding a variety of health and safety outcomes.

One way of evaluating the impact of the WHC pilot would have been to look directly at the relationship between involvement in the pilot and final outcomes. This approach, however, was considered unlikely to produce robust results because in addition to improving safety using the pilot can change the way that the final outcomes are recorded.

Instead the approach taken was to analyse the relationship in two stages, looking first at the effect of the WHC pilot on intermediate outcomes and then looking at the effect of the intermediate outcomes on the final outcomes. These relationships were examined using difference-in-difference analysis. This looks at the changes in outcomes between the two survey waves, and tests whether these changes are different for the WHC pilot user and comparator groups.

In addition to the range of health and safety information gathered at the two interviews, information regarding general organisational characteristics was used to allow the analysis to control for these factors.

There was no evidence that taking part in WHC had a direct measurable effect on rates of sickness absence. There was, however, evidence that involvement with WHC lead to improvements in a range of health and safety practices. These in turn were linked to a reduction in accident rates.

The costs of the service, when the costs incurred by employers were included in the calculation, outweighed the pilot's measurable benefits.[20]

Can impact evaluation still be done when there is no physical comparison group?

9.49 A situation where there is no physical comparison group might arise if the policy was introduced everywhere simultaneously, or if there are no data available on non-participants. In this situation, the evaluator can attempt to estimate a counterfactual from a forecast or projection of the outcome measure derived from the pre-policy history, and compare it with the actual outcome. This is the basis of the **interrupted time series** (ITS) design. In practice, this design can only be used when:

- the nature of external influences is sufficiently well understood to eliminate any alternative causes; and
- the impact is sufficiently large compared with the error inherent in the forecasting procedure. In practice, only very major policy changes, that overturn a persistent historical trend, or overwhelmingly dominate sources of random fluctuation, can be

[20] *Workplace Health Connect Pilot: Evaluation Findings,* Institute for Employment Studies, 2009, http://www.hse.gov.uk/

detected with this method; the statistical power of an ITS is generally much lower than for designs involving a comparison group.

9.50 As a result of these restrictions, the analyst should be aware that the ITS can only be used rather rarely in public policy evaluation.

9.51 An alternative approach which is sometimes possible when there is no physical comparison group is to examine alternative outcomes which, other things being equal, have been seen to move in parallel with the one targeted by the policy. For example, a policy targeted against a particular crime type could compare outcomes for a different crime type which historically has had a similar trend; or an intervention based on cancer screening could look at outcomes for a different type of cancer. As with the ITS, the evaluator should remain alert to the possibility of reasons other than the policy why the two outcomes might have diverged.

9.52 The above discussion has not provided a comprehensive "listing" of all of the possible approaches to estimating a counterfactual. Rather, it has sought to explain the thinking behind identification strategy, and how different problems in counterfactual estimation might be addressed. The identification strategy inevitably involves making some assumptions, which in many cases can be relatively strong. Any evaluation should include an explicit acknowledgement of these assumptions, and comment on their plausibility – where it is possible to test the assumptions directly it should be done.

9.53 It is clear that each alternative approach that has been discussed has its advantages and disadvantages and it is often difficult to provide prescriptive guidance and instructions on how to go about deciding which is the best approach for a given problem situation. Judgment and common sense should drive the decision making process.

Box 9.K: When the evaluation is not (just) about individual people

So far this chapter has been couched in terms of analysing the outcomes of individual people; there are of course other types of evaluation.

In many cases, there is interest not only in the outcome of individuals, but of the units to which they belong – a good example is schools and pupils. Ideally the evaluator will have access to data at the individual pupil level, and also know the schools to which they belong. If these data are available,[21] then in many cases an appropriate approach is multi-level modelling (MLM) (more detail is provided in the supplementary guidance). This allows the analyst, in this example, to model explicitly the effects on outcomes of both school level factors and individual pupil level factors, and see which of these are more important.

In some cases however, either the data for individuals are not available, only the unit level aggregates (such as school league tables), or the outcomes are only meaningful at the unit level, such as profits data for businesses. In such cases exactly the same considerations apply in principle as for evaluation of individual outcomes. There are however likely to be differences in practice. There are likely to be fewer units in the population, making it impractical to have very large samples. The units are likely to be more diverse than individual people. And it is more likely that the intervention affects units to a differing and measurable degree (e.g. some additional source of funding for schools), which can be utilised in the evaluation.

A further degree of abstraction is when data are only available at a population level. Again, this can be either because the data are aggregated up from individual outcomes, but only the aggregates are available, or because the data are genuinely available only at population level. An example of the latter might be interest rates.

The constraints on the availability of data will guide the available analytical approaches. Where only population data are available, or where all units are affected by the intervention at the same time, time series modelling might be a viable approach. Where the degree to which units are affected is monitored and known, the marginal effect of increasing the intervention intensity can be modelled.

Thinking critically about the textbook techniques

9.54 The discussion above has stressed how the textbook research designs (e.g. DiD, PSM, RDD) may be viewed in a common framework as ways of addressing selection bias. They are not mutually exclusive. While it is true that one design may form the centrepiece of a study, it is often appropriate to combine elements of a number of different approaches. For example, the analyst can form matched groups prior to performing a DiD (and may then find that the parallelism assumption is much better satisfied than for unmatched groups). As a second example, the model for an RDD can usefully be augmented with terms for other variables thought to affect the outcome, if they are available (which will boost its power to detect the policy effect).

9.55 Once a preliminary analysis has been made the analyst should think critically about the assumptions involved and to what extent the results will remain robust should those assumptions be incorrect. This may involve triangulation with data collected through a process evaluation such as stakeholder interviews to probe whether the modelling has captured the

[21] In some cases, even when data have been recorded, they may not be readily available to the evaluator for a variety of reasons, such as data protection.

situation as it really is, running variants of the model under alternative assumptions, and where possible performing supporting analyses to test the assumptions directly. And, it almost goes without saying, always plot the data.

9.56 There are a number of threats to validity of research designs, some of them applying even where the design itself is very strong, as in the case of an RCT (further detail is provided in the supplementary guidance). These threats arise from the fact that the social scientist cannot usually control the experiment to the same degree as would be possible for a clinical researcher, and may be summarised under two headings:

- "Hawthorne effects" - subjects may react (either positively or negatively) to the knowledge that they are being experimented on, and in a way which affects the outcome of interest. This can occur especially if they are aware either of being granted or denied a potentially beneficial treatment. For instance, a participant who is denied access to a training course might react by seeking additional training outside of the trial. In a clinical setting this risk is mitigated by blinding or the use of a placebo, but this is almost impossible in the social policy field.
- Mis-assignment - the actual allocation and receipt of treatment may differ from what the researcher intended, because either the provider or recipient circumvented the planned design, for a variety of reasons.

9.57 Process evaluation can be valuable in determining whether and to what extent either of these has occurred.

9.58 Whenever a policy was targeted on individuals who were outliers in some way (for example, prolific offenders, low educational attainers) a common hazard for the evaluator is regression to the mean. If assignment to the policy was based on a snapshot measure shortly before it began (for instance, the number of offences in the last month, or results in a recent school test) then the selection process will to some extent capture the results of temporary fluctuations in an individual's life rather than underlying extremes. After participation, it is more likely for the extreme individuals to recover their underlying level, or "regress to the mean", than to become yet more extreme. The outcome will be seen to improve, but this will be at least partly a "natural" improvement, which, if unrecognised, might result in a misleading impression of a policy benefit.

9.59 The evaluator can check directly for regression to the mean if historical data are available, by looking for evidence that the outcome of interest has natural variability ("peaks and troughs"), and then seeing whether recruitment into a scheme appeared to occur closer to a peak. Repeating the analysis using different time baselines is a useful sensitivity test for this purpose. Some research designs, such as RCTs and RDDs, are constructed to avoid the problem making this check unnecessary, whereas others such as matching designs and DiD do not.

9.60 Examining historical time series data, where available, is valuable for descriptive purposes. It places any changes in the outcome measure that might have been the result of the policy in the context of pre-existing trends (did the trend change after the policy was introduced?) and can be used to test the parallelism assumption for DiD. Indeed, whenever a non-equivalent comparison group is used, the evaluator has considerably more confidence that post-policy changes were caused by the policy if the comparison and treatment groups have tracked one another for a long historical period. A useful trick when visually examining the data is to index the time series to a common baseline.

9.61 Another judgement the evaluator will wish to make is whether a "matched" comparison group really is matched. With regard to observed characteristics, this may be done by comparing distributions between the two groups. This check should be done even for RCTs, especially when numbers are small, as randomisation does not always provide balanced samples – that is,

samples which are similar in terms of the characteristics likely to affect the outcome. With regard to unobserved characteristics, careful consideration based on subject area knowledge will be needed to assess possible non-equivalence.

9.62 A particular case where a "matched" comparison group may fail is when policy allocation was in fact rigorously targeted, but the evaluator does not have access to all the information on which the targeting was based, perhaps for one of the reasons mentioned in paragraph 9.56. In this case, the presence of a reasonably sized region of common support[22] should be regarded with the utmost suspicion: it is virtually a sure sign that the selection bias has not been adequately captured, because in a deterministic selection process there should be no common support at all (just as there would not be for an RDD). A DiD analysis on the "matched" groups might provide a remedy (assuming the historical data exist to permit it), since it acknowledges the non-equivalence of the two groups.

9.63 As with any statistical study, the evaluator should beware of embarking on "fishing expeditions or data mining", especially when many variants of a model are being fitted. If different variants give different conclusions it is vital to be clear about how the assumptions differ and the robustness or otherwise of the model to changing them. A useful technique is to hold back a portion of the data during an initial phase of analysis and then check that these data give consistent results.

"Constrained designs"

9.64 Much of this chapter has been concerned with the design and analysis of studies when the policy has been designed so as to provide a comparison group. However, an analyst may be asked to evaluate a policy that is not amenable to these approaches, for example, if on practical grounds none of the desired policy allocation methods was possible, or if data are not available or of insufficient quality, or the policy has already been implemented and the opportunity to put a research design in place was missed.

Natural experiments and instrumental variables

9.65 A solution may present itself if it is possible to carry out any of the approaches in this chapter in retrospect. The influence of random shocks or administrative anomalies on policy allocation can sometimes create a so-called "natural experiment", in which comparisons with a naturally occurring comparison group can be made even though none was present by design. Essentially the same theory and analysis considerations then carry through. A more general case is where a so-called instrumental variable can be identified – an external factor which influences the likelihood of being exposed to a policy, and which does not in itself affect outcomes. This can be a very useful way of overcoming selection bias. It is often difficult, however, to find a suitable instrument, and very rare to identify one in advance, so it is not common to use this as part of a planned evaluation strategy. More information on this approach is given in the supplementary guidance.

"Before and after" studies

9.66 Sometimes the level of evidence available falls far short of what would generally be regarded as a true impact evaluation. A common example is the single group pre-and post-test design, or simply "before and after" design, in which an outcome is measured before and after intervention takes place but there is no comparison group. This only really has any credibility when the system being studied is so simple that the policy is the only thing that could reasonably be expected to influence the result. Unfortunately, real social systems are seldom that

[22] The "common support" consists of those members of the treatment and comparison groups who can be matched to each other. It is discussed in more detail in the supplementary guidance.

simple. Unless there is a strong justification for ruling out influences other than the policy (not simply a lack of obvious alternative explanations), this design should not be reported as an impact evaluation. The supplementary guidance provides detail on the large number of threats to validity with this design.

Use of process evaluation information

9.67 This chapter has already highlighted the benefits of combined evaluations where process studies, which study the implementation and delivery of a policy or intervention often using qualitative methods, (Chapter 8), are integrated with impact evaluation. This is particularly important when quantitative measures of impact are weak, or not available at all. If as above there is no comparison group, or worse still not even an outcome measure is available, then the researcher may be able to draw upon the findings of a process study, action research or case studies. By their nature these types of study do not allow a quantitative measurement of impact, but they may be able to capture a direction of change. Front line staff directly involved in the delivery of the intervention will have a good feel for whether or not it is effective, and why. Care must be taken, however, that the evidence captured reflects the achievement of the wider aims of the policy, and is able to look beyond the immediately perceived impact by the interviewees.

Reporting of evaluation results

9.68 Whichever approach is used, the evaluation report should be worded to give an accurate and objective reflection of the strength of the evidence. If there remain significant doubts as to the strength of the counterfactual estimate (or if it could not be estimated at all) then the evaluator should avoid using the term "impact" or any other wording that would imply attribution of the outcome to the policy. Only if the evidence points decidedly towards a causal effect of the policy should it be reported in these terms. As usual, any appropriate caveats with regard to the assumptions made and the strength of the available evidence should appear alongside the conclusion.

> The guidance in this section of the Magenta Book has been revised since the previous edition to clarify that weak designs, where there is no compelling reason to ascribe the outcome to the policy or to eliminate other potential causes, should in general not be reported as impact evaluations.

9.69 As an example of appropriate reporting, the results of a successful (fictitious) impact evaluation might be stated as follows.

9.70 "The results of the ABC pilot imply that the proportion of pupils achieving five grades A-C at GCSE was increased by 0.7 per cent as a result of the ABC programme. This is after taking into account known differences between participating and non-participating schools, though there remains a possibility that some other differences between the schools could have contributed."

9.71 If a true impact evaluation was not possible, the evaluator should avoid wording like the following:

9.72 "In the year following the nationwide rollout of the XYZ policy, the proportion of pupils achieving five grades A-C at GCSE rose by 1.2 per cent. It is not possible to say for sure whether this was the result of the policy, but the results are encouraging."

9.73 This is bad reporting. There is too much risk of the first sentence being taken out of context. Despite the "caveat", the report seems to want to imply that the XYZ policy caused the improvement. To a casual reader the strength of evidence might seem to be similar for both the

ABC pilot and the XYZ policy, when in reality the former is pretty robust but the latter is paper-thin. It is true enough that an increase in attainment is better than a decrease, but in order to regard it as "encouraging" (from the point of view of the XYZ policy) we would require a much wider appreciation in the context of other drivers of change and previous trends.

9.74 If the previous example could be backed up by some qualitative evidence, a more appropriate form of words might be:

9.75 "Although in the year following the nationwide rollout of XYZ policy the proportion of pupils achieving five grades A-C at GCSE rose by 1.2 per cent, this welcome rise was not necessarily caused by the policy. For such a claim to be made with confidence would require an appropriate evaluation that controls for other factors. However, interviews with teachers suggested that the policy had filled a genuine gap for struggling pupils who in previous years might have fallen through the net. It is therefore reasonable to suppose that it has contributed to the 1.2 per cent increase in proportion of grades A-C in the year since it was introduced."

9.76 To conclude, this chapter has described how the evaluator can go beyond merely stating what happened, and report something much more relevant to the policy maker: namely, whether the policy caused it to happen. The rationale for doing the extra work required is that it answers the impact evaluation question, whereas descriptive statistics alone do not. The two types of evidence – descriptions of the situation on the one hand, and impact evaluations on the other – say very different things and need to be reported in correspondingly different ways. The one must not be misrepresented as the other.

10 Drawing together and reporting evaluation evidence

Key points

- How the findings of an evaluation will be used and disseminated must be considered at the planning stage of the evaluation.
- A strategy for synthesising evaluation evidence should be agreed in advance, to avoid any possible accusations of picking the results which best support a particular viewpoint.
- Evaluation results should be set in the context of other knowledge about the intervention and/or the context in which it was delivered.
- A thorough evaluation can be time-consuming and/or expensive. It is important to get the maximum value from the investment, for example by ensuring that results can and do feed into important decision-making processes such as spending reviews.
- Decisions about future policy will not be made solely on the basis of a single evaluation.

Introduction

10.1 This section provides guidance on how to draw together qualitative and quantitative evidence from a programme of evaluations and set the findings in a broader context. The section also considers the implications of this for initial evaluation planning and discuses the presentation and dissemination of findings to ensure they impact on future decision-making and rolling-out/scaling-up of the policy where appropriate.

How evaluation evidence may be used

10.2 Evaluation evidence can be used to inform a range of different types of decisions, such as:

- immediate decisions about policy options; for example whether to roll-out a pilot as a national or local programme;
- longer term decisions about the policy/programme; for example informing Spending Reviews and the future scale of investment;
- how the programme/policy could, or should, be improved; for example if the evaluation identifies major flaws; and
- how future policies should be designed and implemented.

Drawing together the evaluation evidence

10.3 An important task in all evaluations is to bring together the evidence collected from different parts of the evaluation to present a complete account. What are the answers to the

original research questions? Do the results support each other, or are there apparent contradictions? In a small-scale evaluation this may be a fairly straightforward task, but in others, with many separate studies (such as process and impact evaluations) carried out over a number of years, it can be substantial. It is important to ensure that sufficient time and resource is allocated for this part of the evaluation.

10.4 When drawing together quantitative and qualitative evaluation evidence it is important to consider whether answers to different questions are consistent. A process evaluation might, for example, find that a policy was only weakly implemented; yet the impact study shows that it still had a significant effect. The different parts of the evaluation will need to be used to examine the original logic model (see Chapter 5 for further detail on the use of logic models).

10.5 Ideally, all the steps in the model are found to work as anticipated: a programme is implemented as intended; participants change their behaviour as predicted; and the desired outcomes are observed. Where this occurs, the overall consistency of the various evaluation findings increases our confidence in them. However, there may be occasions where some steps cannot be fully validated, for example, all the processes are seen to have worked as expected, but there is only weak evidence of overall impact. In such a case, confirming the earlier steps in the logic model will lead to increased confidence that the observed impacts are genuine.

10.6 But in some cases this does not happen, and the logic model breaks down. This can occur at a relatively early stage in the model. For example, suppose that the evaluation of a training programme for unemployed people finds that there is no significant impact, and that a large proportion of participants drop out before completing the training. We can then look for evidence as to why this happened using other evaluation evidence, for example through qualitative studies of participants, exploring why they did or did not complete a course, or through more detailed analysis of quantitative data to identify what factors are statistically associated with completing a training course.

10.7 Sometimes the break in the logic model can be at a later stage: a policy is fully implemented as intended but does not have the desired impact. For example, a programme is designed to help move unemployed people into work by encouraging them to search more actively for jobs, based on previous evidence suggesting that this will result in faster movement into work. The evaluation shows that people participate in the programme, and intensify their job search but that there is no impact on employment. Again, other parts of the evaluation may suggest explanations for this, for example there may be evidence that the current state of the labour market reduces the effectiveness; or that the programme only works for certain sub-groups of individuals.

10.8 It is extremely important to note that these conclusions are not robust findings in their own right, but are new hypotheses which will need further testing to verify them. (A good treatment of the iterative process of refining hypotheses in this way is given in Pawson and Tilley's book on realistic evaluation.)[1]

10.9 It is useful to capture and document these emerging hypotheses as changes to, or refinements of, the original logic model, being careful to distinguish between those parts which are clearly supported by evidence, and those which are for further testing.

10.10 It is highly advisable to set down in advance the intended strategy for reconciling different estimates of impact. For example the Pathways to Work evaluation[2] collected data on a cohort of those joining the pilots early in their operation in addition to a cohort that joined after the

[1] *Realistic Evaluation*. Pawson and Tilley.1997 – see Chapter 5 in particular

[2] *Pathways to Work for new and repeat incapacity benefits claimants: Evaluation synthesis report, Research Report No 525* National Institute of Economic and Social Research on behalf of the Department for Work and Pensions, 2008. http://www.dwp.gov.uk/

programme had been operating for six months, by which time it was expected that initial teething troubles would have been addressed. The intention was always explicit to use the results from the later, "preferred", cohort. It is important to set this out early on because otherwise it can be difficult to avoid accusations of choosing evidence to support a prior viewpoint.

10.11 There are no hard and fast rules for this process of drawing data together and many analysts will already have experience of synthesising data. For those wishing to learn more there are textbooks on the topic, for example Cooper and Hedges (1994).[3] It is worth noting that there are separate considerations for quantitative and qualitative data.

Synthesising quantitative data

10.12 One of the most common quantitative synthesis tasks is to reconcile a number of different assessments of impact which may be based on different:

- data sources – for example survey and administrative data;
- groups of affected individuals – for example the first and final waves of recipients to receive an intervention, as in the evaluation of the impact of Pathways to Work; or
- statistical approaches and assumptions - Chapter 9 explained how the validity of the impact assessments depends on key assumptions.

10.13 It is highly unlikely that all the estimates will have equal validity meaning that a statistical combination of them to give an overall best estimate will not be possible. There are two types of validity to consider here: internal and external, as discussed in Box 10.A.

Box 10.A: Considerations of internal and external validity

Internal validity (as discussed in Chapter 9 paragraph 9.14) refers to whether the results are a true reflection of the impact on the individuals being studied. In the case of a pilot study for example, are the estimates a true reflection of the impact on the individuals in the particular areas involved in the pilot during the lifetime of the evaluation? All statistical approaches to impact estimation depend on assumptions. Where different statistical approaches have been followed, it will almost always be because it was not possible to be certain in advance whether the necessary assumptions hold. Where possible, formal tests of the validity of the assumptions should be carried out (for example, testing the common trends or parallelism assumption in a difference-in-difference design. See Chapter 9 for a more detailed discussion).

External validity refers to whether the impact estimated for those directly studied can be extrapolated / generalised to others. For example, as in the Pathways to Work example, the impact of a programme on the first group to go through it is likely to be a poor guide to its effectiveness, due to teething problems. A better guide is likely to be the impact on those who experience it after it has bedded in. More discussion of potential threats to external validity is given in paragraph 10.28.

10.14 A different type of consideration might be which data source is closest to measuring the relevant outcomes. Administrative data would normally be more accurate than self-reported data where something very specific and objective is being measured. For example, it is well known that survey responses about which welfare benefits claimants receive are not fully

[3] *The Handbook of Research Synthesis,* Cooper and Hedges (Eds), 1994, New York: Russell Sage Foundation

reliable. Administrative data sources, in many cases, will have extremely low sampling error, giving far greater precision than is possible with surveys. But very often administrative data and surveys are measuring different things, or there are known limitations about one of the sources. For example, administrative data can provide information about numbers of recorded crimes, but only surveys can provide data on the fear of crime. Chapter 7 discusses surveys and administrative data in more detail.

10.15 On a related point, there is also the question of which results answer most closely the question at hand, which in turn depends on the decision being made. As explained in Table 10.A, impacts can be either average or marginal. Where the decision being made is whether or not to continue with a policy, or to implement a pilot, it is appropriate to use average treatment effects. But where the question is whether to expand or contract a programme, marginal effects are more important. As previously noted, which of these is available is likely to be dictated largely by circumstances rather than by choice. Where it is necessary to make decisions based on average effects when marginal effects would be more appropriate, or vice versa, it may be possible to explore the heterogeneity of treatment effects, either quantitatively (for example, looking at impacts for sub-groups) or qualitatively. The need for this should be considered at the planning stage.

10.16 In some cases, it may be clear that one set of estimates is more likely to be valid than others, and is therefore the appropriate one to use. In other cases, sampling error may explain the differences allowing the findings to be combined arithmetically. There may be occasions however where, despite best efforts, it may not be possible to fully reconcile the different studies, in which case it may be appropriate to report the impact as a range rather than as an exact figure.

Table 10.A: Types of impact estimates

Types of impact estimates		
Intention to treat (ITT)	The impact of the policy on the target group. For example, for a training programme for jobseekers, the net impact on all those eligible, whether they participated or not.	Where participation is voluntary, estimating the impact on the Intention To Treat group avoids most of the problems of selection bias. But where the proportion participating is small, the impact is small and can be very hard to detect.
Treatment on the Treated	The net impact on those who were actually affected by the intervention – for example, those who took part in a training programme.	It will be much easier to detect with small participation rates, but depending on how participants are selected it may be difficult to account for bias.
Which of these is estimated is more likely to depend on which impact evaluation methods are feasible than on which is more desirable. Note that as long as it is known who is treated and who is not, and that it is reasonable to assume that there is no impact on the non-treated, it is straightforward to calculate one from the other. *For either of these, there are two types of estimate:*		

Average Treatment Effect	The average net impact across all those treated, or who were intended to be treated.	This is the most common, and is the preferred estimator for cost-benefit analysis in particular, and for overall decisions about whether to implement a policy. It is less suitable where the decision is about the expansion or contraction of a policy.
Marginal Treatment Effect, or Local Average Treatment Effect	The impact on those who in some sense are on the margins of participation.	An example of this is in a general Regression Discontinuity Design where the impact estimated is for those whose scores are on the borderline of eligibility. This is the estimator needed to inform decisions about expansion/contraction (in this example, changing the threshold score) but further assumptions are needed to produce an overall cost-benefit analysis.
In most cases, whether the impact estimate is marginal or overall average will depend on the available evaluation methods rather than on what is desired.		

Synthesising qualitative data

10.17 Similar issues to those raised above are also relevant when synthesising qualitative findings, such as those that might be collected through a process evaluation. Process evaluations are often designed to capture the experiences of different people, areas, or institutions for example, subject to a policy, so that these differences (and similarities) can provide powerful information about its implementation and an explanation for observed impacts. However, it is important to be confident that any differences observed through qualitative research (either in the same or in separate studies) are due to actual differences in the people, groups or areas being studied rather than being the result of shortcomings in the research itself. This means that it is essential that qualitative research is designed, conducted and analysed in a way that allows confidence in the robustness of its findings. Process evaluation, action research and case studies are discussed in further detail in Chapter 8.

10.18 There are a range of approaches to assessing the quality of qualitative research ranging from using criteria similar to that used to assess quantitative data (external and internal reliability and validity) to ones specifically designed for qualitative data (credibility, dependability, confirmability and authenticity). There is a useful discussion of this in Bryman (2001)[4]. Key questions to consider when reviewing the quality of qualitative research are provided in Box 10.B.

[4] *Social Research Methods.* Bryman. 2001. Oxford: Oxford University Press

Box 10.B: Questions to consider when reviewing the quality of qualitative research

- If wanting to compare findings within or between studies, have similar methods and approaches been used to make this comparison credible?
- When the research has been undertaken by a number of people, do different members of the research team agree on the observed results and findings?
- Is there a good match between the observed findings, the conclusions drawn, and/ or hypotheses developed?
- Is there sufficient data to allow readers to assess whether findings can be transferred to different settings or times?
- Has the research been undertaken in line with best practise research guidance, and have the findings been triangulated via different methods/ data sources?
- Are the methods and approaches used reported transparently (for example, through the provision of interview schedules, or observation proformas)?
- Are the views of all participants of the policy presented clearly and fairly?

10.19 Once a judgement has been made that findings are valid then data from qualitative research can be presented, highlighting the different sources of this data, and signposting any differences and/ or similarities between different research participants and areas. These similarities and differences are key issues in comprehending how a policy was implemented and delivered and so the more richly they can be described and explained, the better the policy can be understood (and compared to previous research on the policy or similar policies). This doesn't mean that the findings should necessarily be reported in a long and detailed manner. The key issue will be to answer the original research questions highlighting the different or similar experiences of the policy and explaining why these might have occurred. Where it is useful to provide particularly detailed accounts these can be annexed or presented in a technical report.

Setting the evaluation results in a broader context

10.20 When considering the evaluation findings it is vital not to neglect the broader context. In addition to analysing the findings from different parts of the evaluation for reinforcement or contradiction, it is important to review the broader research evidence, including related evaluation studies and any other relevant literature. Evaluation findings will be strengthened when they are in line with earlier research. In contrast, differing findings can be explored further in order to seek explanations, thereby making valuable extensions to existing knowledge.

10.21 When seeking to understand why there are differences, it is important to look at the context in which evidence is gathered. For example, the findings may be from research undertaken abroad, such as the USA, and differences in context between the two countries need to be taken into account. For example when looking at issues around health and disability the differences in the healthcare infrastructure might be relevant. While research into criminal justice would need to take into account the differences in sentencing policy.

10.22 Another major difference in context might be temporal differences between the previous research and the current evaluation. For example, the economy may be at a different stage of the business cycle or there may have been legislative or societal changes, such as the increase in access to the Internet, which could explain the differences in the findings observed. If two evaluations are separated in time, the context in which they are carried out, for example economic, social, political, legal or technical, will inevitably have changed.

10.23 It may sometimes seem that the results of an evaluation are almost identical to previous work, questioning its value. But the conditions under which the evaluation takes place will always be different. A labour market programme, for example, might have been found to be effective at a time when the economy was expanding; finding that it is still effective when the economy is in recession would be important learning. Box 10.C provides a list of questions to consider when reviewing the broader research evidence

Box 10.C: Questions to consider when reviewing the broader research evidence

- What was the economic, social, political, legal or technical context within which the research was undertaken?
- Was the research undertaken in the UK? If not, are there any relevant differences in context between the UK and the country in which the research was undertaken?
- If undertaken in the UK are the geographical areas comparable in nature? For example urbanisation, levels of deprivation, etc.
- How long ago was the research undertaken? Have there been any relevant changes in context since the study was undertaken?
- Were the studies conducted at the same time of year? Could there have been any seasonal or temporal differences?

10.24 Quantitative estimates of a policy's impact may lend themselves to meta-analysis.[5] This can be used either to get more precise estimates of a policy's impact using findings from a number of different evaluations than are available from a single study; or to understand what factors are associated with varying scales of impact. Suppose there is a policy which is expected to have different impacts at different stages of the economic cycle. In principle a statistical model can be built incorporating the impact estimates at different stages of the economic cycle, and a suitable measure of the state of the economy, to test and quantify the relationship.[6]

10.25 Even where such formal meta-analysis is not possible, either because there are not enough comparable studies, or because the evidence is qualitative rather than quantitative, it is important to look at the degree of consistency between the evaluation and previous evidence (which should not be limited to previous evaluations). There are clear parallels to the previous section on synthesising evidence within an evaluation. Where the new evidence is at odds with previous studies, it may be possible to develop hypotheses about which factors influence the results. And when the new evidence is weak, it is more likely to be given credence if it is broadly consistent with earlier findings. Where it is not, it may well be an anomalous result.

Future decisions and roll-out; scaling-up

10.26 Evaluations are often undertaken of pilot programmes,[7] this section focuses on the decision whether or not to move from a pilot to a fully implemented national policy or programme.

[5] Meta-analysis is the process of combining statistical information from separate studies, using a range of statistical techniques.

[6] An example of meta-analysis in the criminal justice field, which explores which programme features are associated with greater effectiveness, is: *A rapid evidence assessment of the impact of mentoring on re-offending: a summary,* Home Office Online Report 11/07, Jolliffe and Farringdon, 2007, http://homeoffice.gov.uk/. An example from the labour market field is: *When welfare-to-work programs seem to work well: explaining why Riverside and Portland shine so brightly*; Greenberg et al ;Industrial and Labor Relations Review, vol 59, no.1, pp34-50

[7] In this context a "pilot" refers to a programme or policy introduced on a limited basis – for example limited in time or geographical scope with the express purpose of producing evaluation evidence to inform a decision on whether or not to proceed to full implementation. For a good discussion of

10.27 For an evaluation to have maximum impact on this decision, it is important to be certain that the results are internally valid and are an accurate reflection of the experience of those who have been affected by the pilot. Furthermore, deciding whether to move to full implementation also requires external validity, or certainty that the pilot findings can be extrapolated to estimate what would happen in a full implementation. This has a number of considerations, often referred to as "threats" to external validity which are summarised below, with examples in Box 10.D.

10.28 Reasons why results may not be generalisable, or threaten external validity, include:

- that pilot data are not representative of the wider population;
- the state of the economy at the time of the evaluation;
- what other policies and programmes were operating at the same time and in the same areas as a pilot;
- spillover effects - where for example a policy implemented in one area has effects in neighbouring areas (which may be positive or negative);
- substitution and displacement effects - where there may be positive impacts on those directly affected by a policy or programme, but negative effects on others;
- general equilibrium effects - the overall impact on outcomes taking into account any indirect or secondary effects;
- scalability - whether sufficient resources exist to implement a policy more widely. This is wider than just finances, for example a health intervention may require input from doctors who may be in short supply; and
- what are known as Hawthorne effects - where an initial pilot is successful but largely as a result of increased oversight.

10.29 To an extent it is possible to mitigate these risks by careful planning of the evaluation.

the issues surrounding pilot programmes, see: *Trying it out,* Government Chief Social Researcher's Office, December 2003, http://www.civilservice.gov.uk/

Box 10.D: Examples of threats to external validity

One potential threat is that those affected by a pilot are not representative of the wider population. For example, if a policy is only piloted in parts of London, it would be unwise to assume that the observed effects would be the same in other parts of the country. A well-designed pilot study would address this by including a variety of different types of area. Even so, it is unlikely to be an exact representation of the whole population. Where it is possible to quantify how the pilot areas differ from the country as a whole, it may be possible to correct for this bias. This can be particularly valuable if the choice of pilot areas (or participants) is constrained, for example, if there is a greater than average representation of urban areas in the pilot.

As an example, suppose that there are 100 areas in the country, of which 20 are urban and 80 rural. A pilot programme is run in four urban and four rural areas. Weighting the results of urban areas by 0.2 and those for rural areas by 0.8 will ensure that the overall results are, at least in this respect, balanced. This can readily be extended to two or three factors. In reality, there are likely to be more factors than this, and achieving an exact balance will not always be possible. In such cases, it may be possible to estimate overall effects in a regression framework.

A more difficult case to deal with is where the pilot areas (or people, or units) are self-selecting, for example, if local authorities were asked to volunteer to participate. In such cases, the generalisability of the pilot findings to areas that are compelled to participate in a later implementation stage cannot be assumed. This is because the characteristics and contexts of the local authorities that volunteered may have contributed to them volunteering in the first place and to the impacts observed, these factors may be different in the authorities taking part in the later implementation and may affect the impacts.

10.30 It is important to recognise that a policy evaluation that shows a positive impact and good value for money does not mean that it was an appropriate policy, similar or better gains may have been realised by alternative policies that have not been evaluated. Decision making is also a balancing of risks. Proceeding with a policy for which the evidence is weak risks wasting the resources necessary to implement it. But not proceeding in such a case risks forgoing genuine gains which would have been made if in fact the programme were effective. In each case, the strength of the evidence on impact needs to be considered alongside the potential gains from an effective programme, the potential losses from an ineffective one, and the desirability or otherwise of any unintended consequences.

Implications for evaluation planning

10.31 The extent to which the evaluation findings can be synthesised will depend on how well the evaluation has been designed and planned. Some key points to remember include:

- where an evaluation includes more than one study (for example a separate process and impact evaluation), they should be designed to complement each other;
- research questions must be clearly identified; and
- it is essential to work from an overall set of research questions rather than drawing up separate ones for each study. Consistency with external sources and previous relevant research is desirable, to enable comparison (this is discussed in more detail in Chapter 7).

10.32 Probably the most important point, though, is the necessity of planning the evaluation carefully to ensure that it can provide the necessary evidence to answer the research questions. See Chapter 5 for further guidance on planning an evaluation.

Reporting and disseminating findings

10.33 However carefully planned and meticulously conducted the evaluation, if the findings are not understood and used correctly, the research will not meet its objectives. There are some key points to take into account when reporting and publishing research and evaluation findings.

10.34 Reporting an evaluation means more than writing a final report. It is important to ensure that feedback is provided to all the evaluation stakeholders, and that findings feed into new policy development and appraisal.

10.35 Notwithstanding the range of activities that should be considered in disseminating findings, the evaluation report is a key output and its effectiveness will depend on the brevity and clarity with which key conclusions and messages are conveyed. The aim of the reporting process throughout a project is to ensure the evaluation commissioners, partners and stakeholders are consulted about research methods, progress and results on an agreed basis. Regular interaction between the evaluators and the commissioning partners maintains the focus of the evaluation and teases out any problems with data collection or team dynamics as soon as they arise.

10.36 Opportunity to reflect on the findings as soon as possible helps the stakeholders to prepare for the conclusions and recommendations, and makes hard messages easier to respond to before the final report becomes public. Subject to commissioning partners' views, allowance should be made for comparison of the evaluation results with other relevant evidence, wider dissemination of the results, and consideration of their implications for policy design and delivery.

10.37 Useful guidance is provided by Vaughan and Buss[8] on how to report social research findings to busy policy makers. They point out that many policy makers are able to read and understand complicated analysis, but most do not have the time. Consequently, many will want to be given a flavour of the complexities of the analysis but without getting lost in details. Other policy makers may not have the technical background and will want a simpler presentation. So there is a delicate balance between keeping the respect and interest of the more technical while not losing the less technical.

10.38 Of course, what the evaluation commissioners and other key stakeholders want to see and how they want to see it must determine the form and content of the report. Nevertheless, there are some simple tips suggested by Vaughan and Buss that are likely to be helpful whatever the form of the report; they are set out in Box 10.E.

[8] *Communicating Social Science Research to Policy makers,* Vaughan and Buss, 1998, Applied Social Science Research Methods Series No. 48. Sage Publications.

Box 10.E: Reporting tips

Analyse and advise on the evaluated policy intervention – not on policy strategy and priorities

Keep it simple but not simplistic

Communicate reasoning as well as bottom lines

Use numbers sparingly in the summary reports

Elucidate, don't advocate

Identify winners and losers as well as the average effect

Don't overlook unintended consequences

Source: Vaughan and Buss (1998)

10.39 As discussed above, a useful first step is to report how the new evaluation findings compare with previous knowledge, particularly where there are clear consistencies or inconsistencies. New hypotheses may be required to explain the latter. It is useful to highlight research questions that emanate from the evaluation to inform future planners of research programmes and evaluations.

10.40 It is also important to thoroughly document the research methodology, commonly as part of a separate technical report rather than in the main report. (It is essential that the information remains available, even after all those working on a project have moved on). This should include research tools, such as questionnaires and topic guides used for qualitative/quantitative studies, as well as associated documentation, such as introductory letters and explanatory leaflets. Steps taken to process and analyse the data should be fully recorded, including:

- data cleaning or imputation of missing values;
- weighting for non-response;
- how a final statistical model was selected; and
- how standard errors were calculated.

10.41 Where possible, the source data should be archived to allow subsequent secondary analysis. Anonymised data can be deposited with the Economic and Social Data Service http://www.esds.ac.uk/, although this is more common for quantitative data. It may also be necessary to retain the identifying details separately so that survey respondents can be re-contacted for further research, or to allow linking with other data sets. Where this is the case respondents will need to provide informed consent (this is discussed in more detail in Chapter 7).

10.42 In summary it is vital to think about the dissemination of the results at the time of planning the evaluation, including how they will be used, shared and built upon.

Publication

10.43 Finally, there is the issue of publication and the form that this should take. Departments, devolved administrations, and their agencies will have specific protocols and procedures for this which should be followed and which can be discussed, as needed, with the relevant Head of Profession/Senior Analyst.

10.44 However, in general terms the case for publishing the results of evaluations and information about methodological approaches and research instruments is three-fold:

- it is an integral part of public accountability;
- it helps to improve the credibility of findings by opening them up for wider peer review (NB the importance therefore of including a clear account of the context in which the research was planned and carried out as well as details of the research methodology); and
- it contributes towards a learning legacy that transcends the passage of time and people. Credibility is also served where detailed evaluation reports are produced and made publicly available, where their findings are presented and discussed at academic and research gatherings, and they find their way into public datasets.

10.45 In order to maximise the impact of the evaluation research a dissemination strategy should also be considered. It will not be practical to have tailored outputs for each possible audience so it will be necessary to prioritise, taking into account factors such as who funded the work; who the stakeholders are; and who is in a position to react to the findings.

10.46 One particular avenue for dissemination that is worth considering is publication in a recognised journal. There can be benefits for the researcher and the commissioning government department, including:

- greater credibility for the research;
- wider dissemination of the results;
- exposure to peer review before publication (although as noted in Chapter 4, peer review can be undertaken without a journal publication); and
- critical scrutiny after publication.

10.47 For these reasons, it is usually worth allowing and even encouraging such publication.

HM Treasury contacts

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Office of the Auditor General
MANITOBA

A Guide To Policy Development

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INTRODUCTION

This guide is in direct response to the widespread interest generated by the November 2001 report of the Office of the Auditor General of Manitoba entitled, *A Review of the Policy Development Capacity Within Government Departments*. We were contacted by various Manitoba Government policy staff seeking information on where they could find "how to" guides on policy development. Through our work in this area, we determined that there is a gap in terms of available guides to assist policy practitioners. The fundamental purpose of this guide is to promote excellence in policy development. The Guide is aimed at:

- those in a leadership or management position whose responsibilities include the policy function (see Part A); and
- policy analysts (see Parts B and C).

Guidance is provided for each of the attributes in the model of effective policy development contained in the above-mentioned November 2001 report. We have tried to provide some practical suggestions on how to handle the more challenging aspects of policy development. In this regard, we have included the perspective of some current and former cabinet ministers with respect to the role of policy options in the policy development process (**Section 6.9**). We encourage you to review that section of the Guide as it sheds light on the expectations of cabinet ministers.

By no means is this Guide the final word on policy development. Each of you has your own practical experience of what works well and what does not. Moreover, practical experience is not static. With each piece of policy work is an opportunity to refine one's approach based on previous experience.

We welcome your comments and observations on the Guide.

DEFINITIONS

Policy

In this Guide, policy refers to those plans, positions and guidelines of government which influence decisions by government (e.g., policies in support of sustainable economic development or policies to enhance access to government services by persons with disabilities). There are various types and forms of policy. Among the range of policy types are: broad policy which enunciates government-wide direction; more specific policy which may be developed for a particular sector (the economy) or issue-area (child welfare); operational policy which may guide decisions on programs, and project selection. With respect to the forms that government policy can take, it is reflected most typically in legislation, regulations, and programs. These are often referred to as policy instruments.

Policy Development

The activity of developing policy generally involves research, analysis, consultation and synthesis of information to produce recommendations. It should also involve an evaluation of options against a set of criteria used to assess each option.

Leadership And Management Positions

Throughout this Guide, a leadership/management position includes any of the following who may have policy responsibilities: deputy ministers, assistant deputy ministers, directors, executive directors, coordinators or team leaders.

Policy Analyst

Within the context of the Manitoba government, "planning and program analysts" are often engaged in policy work among other things. Likewise, much of what a legislative analyst does is essentially policy work. Also, program delivery staff may be involved in policy development. Thus the term policy analyst is used in this Guide to refer to all such staff and other positions whose duties include the activities associated with policy development described above.

Consultation

In this Guide, consultation refers to seeking input (i.e., advice, reactions, clarifications, etc.) during the policy development process from individuals within government and those external to government.

PART A – LEADING AND MANAGING POLICY DEVELOPMENT

An effective organizational environment is one that demonstrates three key attributes:

- Leadership Direction And Support,
- Human Resource Capacity,
- Infrastructure Support.

Each of these attributes is interrelated and together they form the foundation of an organization's capacity to perform. They form part of the model of effective policy development that is explained in the November 2001 report of the Office of the Auditor General of Manitoba entitled, *A Review of the Policy Development Capacity Within Government Departments* (available at www.oag.mb.ca). For more information on each of these attributes, refer to the November 2001 Report.

Part A deals with each of the above listed attributes from the perspective of what policy leaders and managers can do to facilitate organizational effectiveness in policy development.

The Following Topics Are Covered In Part A:

Section 1: Leadership Direction and Support	Section 2: Human Resources	Section 3: Infrastructure Support
1.1 Driving and Sustaining Policy Development	2.1 Investing In People	3.1 Having The Right Tools To Do The Job
1.2 What Does Process Management Entail?	2.2 Tip On Strengthening Human Resources Capabilities	3.2 Dealing With Infrastructure Availability And Cost Issues
1.3 What Does Providing Staff With The Necessary Resources Entail?	2.3 Risks Associated With Human Resources	
1.4 What Does Product Management Entail?	2.4 Questions To Ask Yourselves In Relation To Human Resources	
1.5 Risks Associated With Not Providing Leadership Direction And Support		
1.6 Questions To Ask Yourselves In Relation To Leadership Direction And Support		

SECTION 1: LEADERSHIP DIRECTION AND SUPPORT

1.1 Driving And Sustaining Policy Development

- An important aspect of leadership direction and support is championing excellence in policy development. One of the best ways to communicate this is through:
  - process management;
  - providing staff with the necessary resources; and
  - product management (the policy paper or presentation that is generated).

1.2 What Does Process Management Entail?

Determining If Issues Are Cross-Cutting

- Increasingly, issues of the day and solutions to them are multi-faceted and multi-layered often involving more than one department, level of government or non-governmental agency. Alternatively put, policy issues are more often than not cross-cutting or have horizontal implications. Thus one of the critical strategies to successful policy development is to identify who needs to be involved in the process. Policy leaders/managers need to identify whether a particular policy issue is cross-cutting and if so, they need to ensure that the "right" people are included in the policy development process.

Assigning Suitable Resources

- Another critical aspect of leading/managing the policy process is assigning the right resources to address the policy issue at hand. Policy leaders/managers should be careful to resist the temptation of assigning whatever resources are available at the time to work on a particular issue. Within the context of stretched resources, this may mean temporarily re-assigning staff or reprioritizing work in order to achieve the best results within the necessary time frames. To effectively assign resources, leaders/managers need to:
  - be clear on the "inventory" of expertise and knowledge of their staff;
  - identify the particular mix of skills required for a given policy project; and
  - assemble the resources that most closely fit the skill set identified as required under the given circumstances.

Demanding Excellence

- Another essential ingredient to effective leadership and management of the process is the expectations that leaders/managers place on their staff. Policy leaders/manager should demand and expect excellence from policy analysts. This can be accomplished by communicating to policy analysts the expected standards in terms of the quality of the work (e.g., encouraging certain improvements from staff or challenging the rigorousness of the analysis and realism of policy options, and so forth).

- Policy analysts can benefit from opportunities to attend briefings and discussions with a department's executive and the minister (even if their attendance is

strictly as an observer). Attending such meetings helps policy analysts to gain an understanding of their audience (those on the receiving end of their policy analysis and advice). Thus it is well worth it for policy leaders/managers to find opportunities to occasionally expose policy analysts to briefings of the executive and minister (especially more junior analysts who ordinarily would not attend such meetings).

Communicating On Critical Parameters

- Those who are in a leadership/management position need to provide policy analysts with as many "inputs" as possible that relate to the particular policy issue at hand.

Examples Of Policy "Inputs"

In order to be effective, policy analysts need to be given guidance by leaders/managers on aspects such as:

- scope of the policy exercise;
- timing requirements;
- government ideology/principles or aims to factor into the policy development exercise;
- Ministerial direction/preferences or aims;
- any directives from central government that relate to the particular policy initiative;
- resources available for the policy exercise;
- underlying assumptions; and
- requirements with respect to consultations.

Engaging The Minister Responsible

- Never assume that the minister only wants to be consulted at the latter stages of the policy development process or only at the initial stages. A minister should be given the opportunity at the outset to indicate just how involved he/she wants to be and at which stages of the process he/she wishes to be consulted. This includes obtaining the minister's input on your proposed plan for client/stakeholder consultations.

Determining When It Is Appropriate To Involve Program Staff

- It is a good idea to involve program staff in the policy development process. There are several reasons for doing this. First, program staff can be instrumental in helping to properly define the problem/issue. Second, because program staff are in the "front lines" so to speak, they can help to identify key persons to consult, and more importantly, can advise on the suitability of the method of consultation for particular stakeholder/client groups. Third, bearing in mind that policy is frequently implemented through programs, being conscious of program implementation considerations during the policy development stages can strengthen the quality of the policy proposals put forward.

1.3 What Does Providing Staff With The Necessary Resources Entail?

- Providing policy analysts with resources does not simply mean allocating more manpower to get the job done. Allocating more staff or more time to a particular policy exercise may not always be feasible. Resources in this context include other aspects as identified in the accompanying box.

Examples Of Resources For Policy Analysts

In order to be effective, policy staff need access to resources such as:

- Opportunities to be current in their policy field and to expand their subject knowledge.
- Opportunities to enhance skills (e.g., in assessing policy options, in conducting post policy implementation evaluations, in consultation processes, data analysis and computer manipulation techniques).
- Networking opportunities both within government and externally (e.g., through inter-departmental and inter-governmental policy forums, external research groups/think tanks, etc.).
- The appropriate infrastructure (**Section 3**).

- Leads/managers should keep in mind that giving staff access to the types of resources identified above is one way to demonstrate to them senior management's commitment to excellence in policy development.

- Additionally, policy leaders/managers need to set the priorities and trade-offs for policy analysts. This is one way to address time constraints.

1.4 What Does Product Management Entail?

- This aspect is dealt with in **Part C**. Suffice it to say here that the benefits of the best process in the world can be lost if the results of the process are not effectively communicated. Those involved in leading and managing the process must ensure effective communication in providing written or oral policy advice.

Effective Communication

- Effective communication is using plain English, knowing what to highlight, and being conscious of the fact that those on the receiving end of policy advice (whether in written or oral form) are generally not going to be conversant with the subject matter. This is a critical point that cannot be over emphasized. All too often, the policy product fails to take into account that the audience is not an expert in this field. Those involved in leading the policy process need to review policy products to ensure that they meet the criteria in **Part C**.

1.5 Risks Associated With Not Providing Leadership Direction And Support

- The risks associated with not providing leadership direction and support are:
  - untimely response to policy requests;
  - staff with limited understanding of the dimensions of the issue/problem due to lack of contact with external organizations, lack of data, limited or poor communication from leaders/managers regarding direction from government, etc.;

- inaccuracies in presentation of facts;
- clarity and conciseness of policy documents may be compromised;
- limited creativity and innovation in policy response; and
- that good policy analysts may leave.

1.6 Questions To Ask Yourselves In Relation To Leadership Direction And Support

- As the leaders/managers, have we done all that we can to demonstrate to policy analysts on an on-going basis that we expect and are committed to a high standard of policy development?

- As leaders/managers, have we rewarded effective performance? In this regard, money or time-off are not the only rewards. There are several other ways to reward a job well done including: acknowledging staff's role and contribution in front of senior officials/other departmental staff; professional development opportunities; conferences; taking staff to "high-level" meetings.

- As leaders/managers, have we reviewed the policy product to ensure that it meets the criteria of effective communication presented in **Part C**?

SECTION 2: HUMAN RESOURCES

2.1 Investing In People

- The ability to respond to continuous demand for policy advice may not always depend on having more staff. Moreover, due to fiscal constraints, it may not be feasible to hire more staff. While sufficiency of staff may sometimes be an issue, there is also the question of whether existing human resources are as skilled as they could be to carry out policy development as efficiently and effectively as possible. The more proficient a person is at something, the less time it takes to get the job done. Thus it is of strategic importance to invest in existing staff resources to strengthen their capacity to effectively and efficiently meet the level of policy demand.

2.2 Tip On Strengthening Human Resources Capabilities

Tip Λ Leaders/managers can initiate the development of a survey instrument to be used to survey policy analysts on areas where they believe training would be of benefit to them. After identifying training needs, leaders/managers should demonstrate their commitment to investing in staff by preparing a plan for implementing training. To reflect financial constraints, it may be necessary to explore various options for providing training and to also develop a long-range schedule of who will be sent for training in which year.

2.3 Risks Associated With Human Resources

- The risks associated with not having policy analysts who possess the appropriate competencies are:
  - poor quality policy advice;
  - poor quality of policy product;
  - untimely response due to limited competencies.

2.4 Questions To Ask Yourselves In Relation To Human Resources

- Does our department know the strengths and weaknesses of its policy analysts?
- Do leaders/managers in the department have a plan to address training and professional needs of policy analysts?
- Are leaders/managers in the department doing all they can to demonstrate a commitment to building excellence in their policy analysts?
- Are leaders/managers rewarding excellence?

SECTION 3: INFRASTRUCTURE SUPPORT

3.1 Having The Right Tools To Do The Job

- Leadership support also needs to extend to ensuring that policy analysts have access to the resources they need such as:
  - information technology (including software programs that facilitate analysis, modeling and forecasting, etc.);
  - various databases;
  - purchase of research or consultant studies; and
  - exposure to decision-making and discussions at senior levels.

- One of the biggest challenges is with data. Sometimes the data one wants has not been compiled. At other times, it exists in a form that is not suitable for one's purpose without adjustment or manipulation (e.g., the level of aggregation, the geographic boundaries, or the data elements included in a statistic). Collecting previously uncollected data or making adjustments to existing data is often costly and time consuming. In some cases, it won't be possible to create the desired data within the time frames of a given policy exercise. Challenges such as these need to be identified and reported on, and a strategy for dealing with them needs to be put in place. See **Section 3.2**.

3.2 Dealing With Infrastructure Availability And Cost Issues

- Identify and share the problem. This is one way to gain leverage for the necessary resources to obtain the required infrastructure. Remember, be strategic (i.e., be selective about which items you put your efforts towards obtaining and build a solid case). The example that follows illustrates how you might approach this.

Identifying Infrastructure Needs

Using data availability as an example, leaders/managers could initiate a process whereby policy analysts are asked to do the following:

- Identify as clearly as possible the data gap.
- Identify why this data is important (i.e., is it important in relation to one particular policy project, a few policy areas the department is responsible for or does it have widespread application in the department's policy development)?
- Identify what it would take to gather the data (i.e., will staff do it, will a consultant need to be hired, will an external agency provide it, what is the cost)?
- Identify what is the impact of not obtaining the data (i.e., risks)?

Once the above information is gathered, leaders/managers should ensure that the documented data problem is communicated "up the ladder". One way to do this is to include it in your policy products (data gaps potentially affect the ability to provide adequate evidence and analysis of problems/issues as well as the assessment of options). Policy decision-makers need to be aware of the basis on which they are making those decisions.

- Avoid an ad hoc approach to determining gaps and more importantly, prioritize among competing infrastructure needs. To do this, use the set of questions above, to undertake a comprehensive scan of the policy infrastructure to determine all the gaps and compile your findings in one report that is shared with the executive as well as the minister(s).

3.3 Risks Associated With Not Having Infrastructure Support

- The risks associated with not having access to the right type of infrastructure tools are:
  - decision-making is not evidence based;
  - poor understanding of the dimensions of the issue/problem potentially leading to misdirection of funds; and
  - staff have limited means of keeping current on issues and trends thereby limiting their capacity as policy advisors.

3.4 Questions To Ask Yourselves In Relation To Infrastructure Support

- Are we clear on our infrastructure gaps whether they be software, data, research, or others?

- Have leaders/managers asked policy analysts to identify and communicate to them the infrastructure gaps?

- Have we developed a concrete plan for how we will systematically address the gaps (the specific items, their cost, level of priority and schedule for implementation? See **Section 3.2.**

- Does the department flag data and other infrastructure gaps in policy products in order to ensure that decision-makers are fully aware of the basis on which they are making decisions?

PART B – POLICY PROCESS ATTRIBUTES

The process of developing public policy is an activity that generally involves research, analysis, consultation and synthesis of information to produce recommendations. It should involve an evaluation of options against a set of criteria used to assess each option. An effective policy process is one that is generally characterized by the following five attributes:

- Issue Identification
- Issue Analysis
- Generating Solutions
- Consultation
- Performance Monitoring

These attributes form part of the model of effective policy development that is explained in the November 2001 report of the Office of the Auditor General of Manitoba entitled, *A Review of the Policy Development Capacity Within Government Departments* (available at www.oag.mb.ca).

Part B deals with each of the above listed attributes in terms of how to go about putting them into practice. Keep in mind as you read this guide that policy development is not a linear process with each step being completed before the next one begins. On the contrary, the process is iterative and dynamic with the various steps feeding into each other (refer to the above-mentioned November 2001 Report for more information on this point).

Before we deal with each of the attributes in the model, we begin by framing the discussion with a word about the importance of communication from policy analysts to policy leaders/managers throughout the policy process.

Communication With Management

An effective policy process is one that includes two-way communication between policy leaders/managers and policy analysts. Thus, as a policy analyst, don't hesitate to identify where management "input" is needed. Don't always wait for management to come to you. When policy analysts find that there are gaps in the "inputs" they should seek clarification or additional information from those who are leading the process (see top of page 7 for what is meant by "inputs"). Policy analysts are intimately involved in carrying out the policy process and so they are often in a position to identify those areas where they require direction, input or decisions from management in order to effectively move through the different stages of the process. In fact, policy leaders/managers are relying on policy analysts to identify their needs during the policy process and more importantly, to advise and consult them at key junctures.

Likewise, policy analysts should keep in mind the saying, "you'll never know unless you ask"! This means, don't always wait for policy leaders/managers to identify or offer resources. Identify for leaders/managers the resources you believe are necessary for you to enhance your capabilities in policy development. There may be times when you will be in the best position to identify the resources you would like to have access to in order to be more effective.

The Following Topics Are Covered In Part B:

Section 4: Issue Identification	Section 5: Issue Analysis	Section 6: Generating Solutions
4.1 Defining The Problem/Issue	5.1 Understanding The Problem	6.1 The Main Ingredients To Successfully Generating And Assessing Options
4.2 Getting The Diagnosis Right Is Key	5.2 Comparative Data And Analysis	6.2 A Conceptual Framework
4.3 Tip On How To Tell If It's A Symptom Or A Problem	5.3 Types Of Comparative Data	6.3 Tip On Distinguishing Working Parameters From Principles/Values
4.4 Risks Associated With Misdiagnosing The Problem	5.4 Tip On Situating The Problem Within A Context	6.4 Identifying Expected Outcomes
4.5 Questions To Ask Yourselves In The Process Of Clarifying The Problem	5.5 Risks Associated With Insufficient Analysis Of Issues	6.5 What If A Conceptual Framework And Outcomes Is Not Forthcoming?
	5.6 Questions To Ask Yourselves In The Process Of Issue Analysis	6.6 Distinguishing Policy Options From Policy Implementation Options
		6.7 Determining The Pros And Cons
		6.8 General Assessment Criteria
		6.9 Perspective Of Cabinet Ministers On The Development Of Policy Options
		6.10 Risks Associated With Not Generating Policy Options
		6.11 Questions To Ask Yourselves In The Process Of Generating Policy Options
Section 7: Consultation	**Section 8: Performance Measurement**	
7.1 The Who, What, When, Where, Why And How Of Consultation	8.1 Why Bother?	8.6 The Challenge Of Selecting Performance Indicators
7.2 A Consultation Check List	8.2 Making Performance Measurement An Integral Part Of The Process	8.7 Risks Associated With Not Monitoring And Evaluating Policies
7.3 Tips On Getting The Most Out Of Consultations	8.3 Measuring The Performance Of A Policy	8.8 Questions To Ask Yourselves In Relation To Performance Measurement
7.4 Risks Associated With Not Getting The Consultations Right	8.4 Tips On How To Manage Policy Evaluation With Limited Resources	
7.5 Questions To Ask Yourselves In Relation To Consultations	8.5 Criteria For Determining Which Policies To Monitor And Evaluate	

SECTION 4: ISSUE IDENTIFICATION

4.1 Defining The Problem/Issue

- How one understands and defines a problem affects the policy solutions put forward to address the issue(s). It is therefore critical to properly diagnose the problem.

- To clearly define the problem, one has to distinguish the symptoms or effects of a problem from the actual problem. The examples below illustrate the difference between describing an existing situation (symptoms) and tracing what is occurring back to its root cause to identify the actual problem.

4.2 Getting The Diagnosis Right Is Key

Example
A person complains to their doctor that they are suffering from watery eyes and a stuffed up nose. These are symptoms and not the problem. These symptoms could mean the problem is: an allergy, the flu, a cold, a reaction to dust or any number of other potential ailments. Getting the diagnosis right (i.e., getting the problem right) is essential to effective treatment.

Example
An employee survey shows that employees are not entirely clear on procedures to follow in relation to a particular task. The above symptom could mean the problem is any of the following: inadequate communication from management on procedures, conflicting procedures, difficult to understand procedures, under qualified staff. Depending on which one of these is identified as the problem(s), the solution would be quite different.

Example
School grades are declining. This may be a symptom of any number of issues such as: an unstable home environment or malnutrition, both of which can affect ability to concentrate; a reflection of teachers' skills; or the curriculum has changed to more challenging expectations of students. If the conclusion is that the issues are socio/economic in nature the potential solution shifts from an education based response to a social services based response or depending on the circumstances, to a combination of educational and social policy initiatives.

4.3 *Tip On How To Tell If It's A Symptom Or A Problem*

Tip Λ

Symptoms describe **What**	• Housing condition is in decline; vacant and boarded up housing is on the increase; real estate sales in the neighbourhood have declined.
Causes describe **Why**	• Vandalism, absentee landlords, low income households cannot afford repairs, neighbourhood perceived as unsafe.
Policy addresses **Why**	• The causes and not the symptoms.

4.4 Risks Associated With Misdiagnosing The Problem

- The main risks associated with not clearly defining the problem are:
  - not targeting the right problem; and
  - misallocation of resources.

4.5 Questions To Ask Yourselves In The Process Of Clarifying The Problem

- What does the situation that is presenting itself ultimately *reflect*? See **Section 4.3**.

- Have we drilled down far enough to get to the causes of the problem?

- Have we defined the problem clearly enough to give focus and direction to the process of developing options to address the problem? For instance, it would not be sufficient to define a problem by saying, "socio/economic problems are affecting the scholastic performance of school children". This would not give adequate guidance on where to turn in exploring policy options.

- Have we defined the problem in such a way that we can track changes over time once the selected policy solution is implemented? Part of clearly defining the problem includes describing in qualitative and quantitative terms such aspects as how often the problem occurs, when it occurs, its impact when it occurs, etc.

- Having defined the problem, did we also identify what the desired state is (i.e., the outcome sought)? This question is closely related to the previous question. To know if the problem is abating, one has to have a sense of the preferred state in order to be able to measure progress in relation to the desired outcome.

SECTION 5: ISSUE ANALYSIS

5.1 Understanding The Problem

- Keep in mind that the steps in the policy development process do not happen as separate discreet steps. Rather the process is generally iterative and the steps in the process are inter-related and inter-dependent. Thus, issue analysis is inseparable from problem definition. In fact, the two steps inform each other and there is a back and forth flow between these two steps. The more one analyzes the issues the more clearly one can define and *refine* the definition of the problem.

- The aim of analysis of the problem is to *understand* it.

- Often a problem involves a number of concerns and is multi-dimensional. As a policy analyst you have to identify the key dimensions of a problem.

- Analyze the problem from different perspectives (understand the environment in which the problem is occurring, understand stakeholder/client perspectives, etc.). Doing so enables you to get a handle on its multi-dimensional nature.

5.2 Comparative Data And Analysis

- One useful way to gain an understanding of the problem is to understand it in relative terms – relative to other similar situations and contexts. For instance, if student grades are noticeably declining in a particular school division, is there a similar trend in other divisions? If the decline in grades is limited to certain school divisions, what is different between those divisions where there is a decline and those where there is not? This type of comparative analysis can be useful in zeroing in on the precise nature of the problem.

- Gathering comparative data is also useful as a way to find out how the problem may have been handled elsewhere. It is especially important to find out how solutions to the problem have worked elsewhere. The latter is important in the next step that relates to generating solutions.

- Don't collect comparative data just for the sake of doing it! Comparative data is only meaningful if you do something with it. So once you have comparative data, analyze it by asking yourself, "so what, how does this influence my understanding of the what and the why of the problem we are facing here"? See **Sections 4.2** and **4.3**.

- Time pressures, data availability, and cost of data in some cases will impact on your ability to collect and analyze what you may ideally want to be able to access. Be selective and strategic in what you choose to collect. Ask yourself, what would be the most useful investment of time in data collection given the various constraints we may be facing.

5.3 Types Of Comparative Data

Example
Depending on the policy issue you are dealing with, here are some types of comparisons that can be helpful in the process of trying to understand the dimensions of the problem:

- trends at other similar locations within your jurisdiction (between neighbourhoods, districts, communities, ecological areas, sectors, etc.)
- trends in other Canadian jurisdictions;
- data on national averages;
- data on city-wide averages;
- historical data (which may point to cyclical trends; or may lead the analyst to see that the current situation did not always prevail thereby leading the analyst to "drill down" further to determine what events/conditions have produced the present situation – understanding this can help in directing you to the potential solutions to the problem);
- international trends.

5.4 *Tip On Situating The Problem Within A Context*

Tip Λ Context can often explain the "why" of the problem. A problem does not suddenly pop up onto the landscape. You need to understand the landscape in which the problem lives in order to fully grasp the dimensions and scope of the problem (e.g., doing an environmental scan).

Tip Λ Find out about the relevant trends that are impacting on the symptoms that are manifesting. As with comparative data, when collecting background contextual or historical information, ask yourself, "so what, how is any of this information helping me to gain an understanding of the issues and what clues is this information giving me about potential remedies"?

5.5 Risks Associated With Insufficient Analysis of Issues

- The main risks associated with not properly analyzing the issues are:
  - unreliable basis from which to develop policies;
  - decision-making that is not evidence based; and
  - policies that have not worked well in other jurisdictions/similar contexts may be repeated unknowingly.

5.6 Questions To Ask Yourselves In The Process Of Issue Analysis

- Have we explored the problem from different angles? This means having an understanding of the issues, as various key interests perceive them (see also **Section 7** on Consultation).

- Do we have an understanding of the problem in terms of its scope? This means obtaining quantitative and qualitative data to substantiate that there is a problem. (e.g., it is not enough to say, "housing quality is declining in a particular neighbourhood and there is a fair amount of turnover in the housing market"). One needs to know the number of dwellings in decline and the rate of turnover.

- Have you obtained comparative data wherever feasible? More importantly, how are you using that information in the policy development process? How has it affected your thinking about the problem? How can the information be used in the decision-making process?

- Have you examined the context in which the problem is manifesting? More importantly, how are you using that information in the policy development process? How has it affected your thinking about the problem? How can the information be used in the decision-making process?

SECTION 6: GENERATING SOLUTIONS

6.1 The Main Ingredients To Successfully Generating And Assessing Options

- There are two critical ingredients that can assist the process not only of identifying potential solutions but as well, the process of evaluating those potential solutions:
  - having a conceptual framework that will guide the process of generating and assessing various potential solutions to the problem; and
  - having a clear sense of the desired outcomes or goals that the selected policy is expected to achieve.

6.2 A Conceptual Framework

- A conceptual framework is the underpinning that should drive the selection of policy options to be assessed. Such a framework should consist of:
  - the main working parameters (i.e., the "givens" or the limitations within which you are working);
  - key principles/values;
  - government/ministerial goals and priorities.

- As early as possible in the process of policy development, policy analysts need to obtain confirmation from the person directing or co-ordinating the policy development process on the above elements that will guide the generation and assessment of policy options.

6.3 Tip On Distinguishing Working Parameters From Principles/Values

- Here are some examples that capture the difference between a working parameter and a principle/value:

Tip Λ

Examples of Working Parameters

- That the policy selected has to be one that can be implemented within the framework of existing legislation.
- That the policy selected has to be one that will not require renegotiations or amendments to an existing tri-level agreement.
- That no new funding requirements will result from the selected policy, but reallocations of existing resources may be considered.
- That the policy selected is endorsed by a particular client group or stakeholder group.
- That the policy selected must contribute to government's priority or directives in a particular area.
- That the policy selected will have a cost neutral impact on households.

Tip Λ

Examples of Principles/Values

- That citizens have a right to universal health care.
- That every child should have access to a safe living environment.
- That all households should have clean drinking water.
- Environmental protection must guide development decisions.
- Affordable housing is an entitlement of citizens.
- That local government autonomy should be enhanced.
- That government accountability to its residents needs to be advanced.

- It should be noted that there is a fine line between the principles/values and the actual policy. Sometimes the principles/values become the policy.

6.4 Identifying Expected Outcomes

- It is not enough to describe a problem in qualitative and quantitative terms. However good the definition of the problem is, the question remains, "where does one want to end up"? If a policy is put in place or an existing policy is modified to address particular issues, what type of change is expected to occur through the policy and roughly when is change expected to be visible?

- Identifying the desired outcome at the outset is not only crucial for the performance measurement step in the process (see **Section 8**), but also for framing the assessment of the potential policy options. Thus each option is assessed in relation to its potential to meet expected outcomes.

- On a continuum, there are three levels of outcomes: immediate, intermediate and long term outcomes. See the side bar for an illustrative example. The more specific you can be about expected outcomes, the easier it is to determine the relative merits and limitations of each policy option.

OUTCOME
A significant consequence attributed to the outputs of an organization, policy, program or initiative. Outcomes may relate to a change in behaviour, skills, knowledge, attitudes, values, conditions, status or other attributes. Outcomes may be described as: immediate, intermediate or long term; direct or indirect; intended or unintended. For example, a program to enforce discharge in waterways could have the following immediate, intermediate and long term outcomes:

Immediate Outcome:
- pollutant discharges are reduced;

Intermediate Outcome:
- reduced fish and human diseases;

Long Term Outcome:
- improved water quality.

6.5 What If A Conceptual Framework And Outcomes Is Not Forthcoming?

- What do policy analysts do when they are unable to obtain from senior officials and/or ministers/cabinet confirmation on a conceptual framework and outcomes? The purpose of this resource guide is to provide a tool that outlines what would constitute effective practices in policy development. Within such a framework, it is recognized that under certain circumstances, a policy analyst may have limited influence over the policy development process. The responsibility of policy analyst is to have *attempted* to undertake the best possible process knowing that such attempts may not always yield an optimal response or reaction.

6.6 Distinguishing Policy Options From Policy Implementation Options

- There is a difference between policy options and policy implementation options. One has to begin the policy development process by putting forward policy options and obtaining agreement from ministers/cabinet on the policy direction. The second step is to explore options for implementing a given policy. Sometimes these two very different exercises will be done as separate steps, while at other times they will be combined (e.g., the policy options and implementation options can be considered and presented together). Whether policy options and policy implementation strategies are dealt with together or separately, the key here is that policy needs to frame the exercise of coming up with implementation options. Jumping right to policy implementation options one runs the risk of not being sure if one is addressing the actual problem or only the symptoms. Developing implementation options without having received direction on the desired policy is to put in place programs or initiatives in the absence of a clear understanding of why something is being done (i.e., the underlying objective).

- Here are some examples of policy options versus implementation options:

Tip Λ

Examples Of Policy Options

- To foster small business development.
- To foster innovation in small business development.
- To stimulate research and development in small business technologies.
- To stimulate employment growth in the small business sector.

Examples Of Policy Implementation Options

For each policy option identified above, there could be several alternative approaches to implementing the policy. Taking the first policy above, some examples of implementation options might be:

- Providing a loans program for new small businesses;
- Providing loan guarantees for new small businesses;
- Funding re-training for persons interested in working in certain small business sectors;
- Providing seed money for feasibility studies and business plan development for potential new small businesses.

6.7 Determining The Pros And Cons Of Options

- The pros and cons of each policy option should be determined in relation to a set of criteria. Each policy option should be systematically evaluated against each of the criteria.

- The criteria selected will vary depending on the problem/issue at hand.

6.8 General Assessment Criteria

Some fairly typical criteria that tend to apply in most policy development contexts include factors such as:

- How well the policy option meets the conceptual framework (see **Section 6.2**);
- time frame for implementation of a policy option;
- impact of a policy option on clients/stakeholders;
- potential adverse impacts of a policy (i.e., in fixing one problem, is another one created or is another existing problem made worse);
- reaction of clients/stakeholders to policy option;
- cost implications;
- administrative ease of implementation of a policy option;
- legal considerations;
- inter-departmental impact (many problems are cross-cutting – i.e., the policy response may affect the work of other departments and/or the policy response may have to come from a cluster of inter-related departments);
- degree to which a policy option is consistent with other relevant government policies, procedures and regulations;
- potential risks (worst case scenario) associated with a policy option and actions that could be taken to deal with the potential adverse impact.

6.9 Perspective Of Cabinet Ministers On The Development Of Policy Options

- *Some policy analysts believe that a minister would not be interested in knowing about alternative approaches and the pros and cons of those approaches if he or she has already stated their policy preference. Moreover, some policy analysts believe that a minister would not want a critique of the policy response that he or she is proposing. We canvassed some current and former cabinet ministers to obtain their perspective on policy options. Below is a synopsis of the main messages they communicated to us on the question of policy options.*

Give Us Options

- *The response we received from them was that professionalism in policy development includes not only putting forth policy alternatives, but also alerting a minister/cabinet to the pros and cons of the policy options even in the case of an option favoured by a minister/cabinet. It was pointed out that to do otherwise is to put government at risk of being blind-sided. Ministers also noted that just because political decisions may sometimes be counter to the administration's recommendations is no justification for staff not to explore policy options and to communicate their merits and potential limitations or risks.*

Don't Tell Us What You Think We Want To Hear

- *Ministers noted that they do not want staff to tell them what they perceive a ministers want to hear. They pointed out that they want to know the facts before they make their final decision and that they rely on the administration to communicate any issues or pitfalls they foresee with a particular course of action even if it is favoured by a minister.*

Ask, Don't Assume

- *Ministers told us that they want staff to ask them when in doubt about whether a minister wants options developed. Likewise, it was pointed out that sometimes the administration assumes that certain options would be rejected outright by certain governments on grounds of ideology. Here again, ministers suggested that rather than making that assumption, staff should have a discussion with the minister early on in the process in order to find out a minister's/cabinet's philosophy, direction and inclination. The point was made that asking questions and seeking clarification at the front-end can save a lot of time for those involved in the policy development process including ministers/cabinet.*

Stay Current On Policy Options

- *Ministers expect policy analyst to be current in their field and to know about the latest thinking and approaches in a given policy field. They rely on them to bring forward cutting-edge policy responses to policy problems.*

6.10 Risks Associated With Not Generating Policy Options

Risks In The Absence of A Clear Framework to Guide Option Assessment

- The main risks associated with not having a clear conceptual framework and policy outcomes are:
  - uncertainty as to whether government's or a department's values and priorities are being furthered by a given policy; and
  - not knowing what a policy is intended to achieve.

Risks Associated With Not Developing And Assessing Policy Options

- The main risks associated with not developing policy options are:
  - The policy selected my not be the best one to meet government or departmental priorities; and
  - the policy selected may not be the most effective and efficient.

6.11 Questions To Ask Yourselves In The Process Of Generating Policy Options

- Did we *attempt* to obtain endorsement or approval in principle from at least the deputy minister if not the minister and/or the relevant committee of Cabinet (if applicable) on the conceptual framework and the proposed desired outcome/goal that will serve as the basis for selecting options to consider? (It is not effective use of a policy analyst's time and resources to generate potential options based on a set of assumptions that senior government officials do not support; see **Sections 6.2 and 6.4**).

- Did we evaluate each option using a common set of criteria? See **Section 6.8.**

SECTION 7: CONSULTATION

7.1 The Who, What, When, Where, Why And How Of Consultation

- An important step in the policy development process is deciding on the best approach to consultation. When it comes to consultation, there is not a one size fits all circumstances. Consultation has to be tailored to meet: the time frames, resource availability and nature of the policy issue(s) at hand.

7.2 A Consultation Check List

Who	• Determining who needs to be consulted: other departments, one's minister, other ministers, other levels of government, other jurisdictions, committees of Cabinet, various external client/stakeholder groups, general public?
What	• What should be the subject matter of the consultation? Whether to consult on issue identification, the range of options, the preferred options, the assumptions, the principles, the outcomes, etc.?
When	• Determining the timing of consultations and when you have consulted enough – i.e., when to end the consultations. Should it take place during the preliminary information gathering stage when you are trying to get a handle on the nature of the problem? Should one wait until there is some internal coalescing around the principles and expected outcomes that will guide the process? Should it be at each step in the process? Should some individuals/groups be consulted at some stages in the process and others consulted at other phases of the policy development process?
Where	• At which location(s) should consultation take place? Is it more appropriate to consult some individuals/groups at certain locations and other individuals/groups at different venues?
Why	• Why does a particular individual, department or group need to be consulted? What type of exchange is one hoping to have with each person/group? Is the purpose of the consultation to gather information, to obtain feedback/reaction? Is it that through the consultation there is also the aim of disseminating information? Answering why makes you aware of what you want to get out of the consultation and helps shape the "how" and "where" of consultation.
How	• Determining the best methods for consultation. Should one hold workshops, round table discussions, public meetings? Should the internet be used to disseminate information on the policy review and as a way to solicit feedback? Should a discussion paper be released? Should sub-groupings of clients/stakeholders be brought together for consultations? Cost is often a consideration in such choices and decision. See **Section 7.5**.

7.3 Tips On Getting The Most Out Of Consultations

Tip Λ Use the Consultation Checklist (see **Section 7.2**) to help you develop a proposed consultation plan that you believe is the best fit given the particular circumstances you are working under. The consultation plan can also be a tool to facilitate discussion and endorsement by whomever is directing or coordinating the policy initiative as well as any other officials who's endorsement is required.

Tip Λ As a general rule, consultations within the organization (in this case, internal to government) should precede external consultations. Failure to consult internally at the outset can often cause resistance and other difficulties in the policy development process. In particular, do not overlook inter-departmental consultations on problems/issues that cut across more than one department.

Tip Λ Part of consultation is also about informing people with respect to what is going on and how it may possibly impact them. This is especially true when it comes to letting other departments/central government know what may be in the works.

Tip Λ Follow-up your consultations with a thank you letter that tells them that you will advise them of the outcome of their input. Letting clients/stakeholders know how their input was used including an explanation of why their suggestions were not implemented if that is the case is important to fostering positive on-going relations with them in future.

7.4 Risks Associated With Not Getting The Consultations Right

- The risks associated with not undertaking consultations, limited consultations or a poor consultation process are:
  - limited understanding of the problems/issues leading to poor policy solutions;
  - negative back-lash from client/stakeholder in reaction to a policy;
  - lack of policy co-ordination; and
  - potential misdirection of funds.

7.5 Questions To Ask Yourselves In Relation To Consultations

- Have we identified the who, what, when, where, why and how of the consultations? See **Section 7.2.**

- Is the proposed approach to consultations realistic within the time frame available for this particular policy development exercise?

- Is the proposed consultation process realistic given the resources that are available?
  - What will it cost?
  - How much staff time will it require?
  - What type of expertise will it require (e.g., will you need a web page to be developed, workshop facilitators, simultaneous translation services at a public meeting, etc.)?
  - Which skills do we have in-house and which ones need to be out-sourced?

- Have we identified the potential fall-out of having to launch a scaled back consultation process?

SECTION 8: PERFORMANCE MEASUREMENT

8.1 Why Bother?

- In our report entitled, *A Review Of The Policy Development Capacity Within Government Departments*, we noted that the prevalent view within Manitoba Government departments with respect to monitoring and evaluating the performance of policies is that:
  - it is too time consuming and costly;
  - it is not the best use of already stretched policy resources; and
  - client/stakeholder reaction and feedback will drive the need to change policies or introduce new ones.

- The performance measurement constraints that departments pointed out need to be contended with and a realistic approach to performance measurement needs to be found.

- In the absence of information on how previous policies have worked, policy development can become an exercise in shooting in the dark and perpetuation of policy approaches that may not be working.

- One may be lulled into a false sense of security by relying on complaints or feedback from clients/stakeholders as a form of performance measurement or as drivers of when to undertake performance reviews.

- It is equally worthwhile to know when a policy or group of inter-related policies is performing well. Knowing what works contributes as much if not more to future decision-making, especially when it comes to defending the value of programs funded in support of certain policy objectives.

8.2 Making Performance Measurement An Integral Part Of The Process

- Performance measurement should not be handled as an after thought to the policy development process; it needs to be an integral part of the process because reflecting on performance measurement at the beginning also helps in refining one's thinking with respect to the expected outcomes. So beyond determining whether the proposed policies will be evaluated, you need to also give some thought (as part of the policy development process) to what the indicators might be and whether data sources exist and how data collection might be handled.

8.3 Measuring The Performance Of A Policy

- Policy units sometimes express the view that developing indicators by which to measure progress in reaching policy objectives is rather impossible. How does one measure progress in areas such as inter-governmental cooperation, or stewardship in the management of the economy, environment, human health and social well-being? While it may be challenging to develop indictors to measure the performance of policies, it can nevertheless be done! The way to find

meaningful indicators is to go back to the problem/issue for which a policy was put in place.

- Policies exist either to ameliorate certain situations or to prevent the occurrence of certain outcomes. The root cause(s) of a policy provides the seeds of potential indicators by which to measure progress in achieving the policy objective. For example, if on-going negative media coverage of the interaction between any two levels of government leads to a policy of wanting to foster positive inter-governmental relations, then one indicator could be the type of media coverage in future.

- Another avenue for finding meaningful indicators for policy objectives is to look to the programs and initiatives through which policy is implemented. If certain programs or activities are being undertaken as a way to implement a policy, then measuring how well those are doing **may** reflect on the policy (i.e., if a program is not doing well, it may or may not mean the policy is the problem).

8.4 Tips On How To Manage Policy Evaluation With Limited Resources

Tip Λ Think small! Be selective about:
- which policies to monitor and evaluate; and
- the number of performance indicators to use as measures of how well the policy is doing.

Tip Λ As part of the policy development process, a determination needs to be made as to whether the policy or group of inter-related policies is going to be the subject of monitoring and evaluation. A checklist of general criteria needs to be developed to guide the process of determining which policies should be the subject of evaluation and monitoring. See **Section 8.5.**

Tip Λ Be strategic in selecting performance indicators. Having numerous indicators is not necessarily a "good thing". It can also mean a lack of focus and a lack of clarity in the policy objectives or expected outcomes. If you can up with one or two critical indicators that track actual results achieved then you are doing well.

8.5 Criteria For Determining Which Policies To Monitor And Evaluate

Factors to include in your checklist of criteria include:

- level of funding that will be allocated to implementation of the policies;
- degree of risks associated with the policy (the following examples may be considered to have a level of risk that warrants performance measurement: policies relating to work place safety for construction workers; policies relating to water quality; policies relating to emergency hospital treatment protocols; policies relating to the reduction in motor vehicle fatalities, etc.);
- how widespread the impact of the policy is likely to be (how many groups are affected; in some cases while the numbers impacted are small the nature of the impact is potentially huge);
- the significance of the group(s) impacted (i.e., are there certain characteristics about the groups impacted that makes policy monitoring and evaluation important to undertake?);
- what is forgone if we don't monitor and evaluate?

8.6 The Challenge Of Selecting Performance Indicators

- Don't focus on all the inherent difficulties associated with selecting meaningful performance indicators. That can be crippling to creative thinking. For a change, making your starting point the shelving of the list of difficulties and constraints so you can "blue sky" unencumbered on potential indicators. Once you have brainstormed on a range of indicators, then assess the merits of each one in terms of feasibility and meaningfulness.

- If you need help in coming up with indicators, it is worth consulting:
  - the web site at www.ppx.ca, the Performance and Planning Exchange (PPX) which is a Canada-based international centre of excellence for learning, sharing and developing expertise in performance and planning including measurement, implementation, public reporting and management;
  - U.S. government agency annual "Performance Reports" which contain the indicators used in relation to various policy objectives (i.e., search the internet for the U.S. annual "Performance Report" that is relevant to your policy sector/department);
  - consult with other jurisdictions that have put in place policies similar to the ones you are considering.

8.7 Risks Associated With Not Monitoring And Evaluating Policies

- The risk associated with not undertaking performance measurement is that the misallocation of funds is potentially perpetuated (i.e., policies that may not be working optimally or that are no longer needed are continued).

8.8 Questions To Ask Yourselves In Relation To Performance Measurement

- Have we determined whether the proposed policies will be the subject of performance measurement? See **Section 8.5.**

- Have we defined the problem/issue and the expected outcome of the proposed policies in such a way that we can measure performance of the policy solutions? See **Section 4** on Issue Identification.

- Have we identified potential performance indicators and do we have a general sense of how we are going to get our hands on the necessary data?

PART C – POLICY PRODUCT ATTRIBUTES

A policy product can be a written document or an oral presentation/briefing. As a document, the policy product can take a variety of forms. It can be a discussion paper, a white paper, a cabinet or treasury board submission, a briefing note, and so forth.

Our model of effective policy development includes six attributes that relate to the policy product:

- Section 9 - Purpose
- Section 10 - Evidence
- Section 11 - Options
- Section 12 - Logic
- Section 13 - Consultation
- Section 14 - Presentation.

For more information on each of these attributes, refer to the November 2001 Auditor General's Report entitled, *A Review of the Policy Development Capacity Within Government Departments* (available at www.oag.mb.ca).

Part C deals with each of the above listed attributes from the perspective of what policy analysts can do to ensure excellence in their policy products. Keep in mind that at different stages of the policy process, the type of policy product you put forward is likely to change depending on the audience being targeted and the stage in the process. For instance, policy proposals may be the subject of a cabinet submission at the early stage of the process and may be transformed at later stages of the process into speaking notes for the minister responsible if he/she has to deliver a speech on the proposed policies.

The Following Topics Are Covered In Part C:

Section 9: Purpose		Section 10: Evidence		Section 11: Options	
9.1	Getting To The Heart Of The Matter	10.1	Back-Up What You Say	11.1	Presenting The Options
9.2	Tip On Effective Articulation Of The Purpose	10.2	Tip On Building A Case	11.2	Presenting A Comparison Of The Options
9.3	Risks Associated With Inadequate Explanation Of The Purpose	10.3	Acknowledging Data Gaps	11.3	Tips On Presenting Options
9.4	Questions To Ask Yourselves In Relation To Articulation Of The Purpose	10.4	Risks Associated With Inadequate Evidence	11.4	Risks Associated With Not Presenting Options
		10.5	Questions To Ask Yourselves In Relation To Evidence In A Policy Product	11.5	Questions To Ask Yourself In Relation To Presenting Options
Section 12: Logic		**Section 13: Consultation**		**Section 14: Presentation**	
12.1	A Building Block Approach To Logic	13.1	Don't Just Do It, Tell Us About It!	14.1	Brevity Is The Soul Of Wit!
12.2	Tips On Logic	13.2	Tip On Consultation	14.2	Tips On Presentation
12.3	Risks Associated With Not Having A Logical Policy Product	13.3	Risks Associated With Not Including Consultation In A Policy Product	14.3	Risks Associated With Inadequate Presentation
12.4	Questions To Ask Yourselves In Relation To Logic	13.4	Questions To Ask Yourselves In Relation To Reporting On Consultation	14.4	Questions To Ask Yourselves In Relation To Presentation

SECTION 9: PURPOSE

9.1 Getting To The Heart Of The Matter

- Using the information gathered from Issue Identification (**Section 4**) and Issue Analysis (**Section 5**) the starting point in a policy paper or presentation is essentially to provide a succinct description of:
  - the problem;
  - why the problem requires a policy response at this time; and
  - the desired outcomes from the policies being proposed.

9.2 Tip On Effective Articulation Of The Purpose

Tip Λ Develop a template that works for you in describing the problem, its dimension and desired outcomes. The following model is one approach you might want to try out (the example in the table below is invented and is not based on actuality).

Model For Explaining The Purpose Of The Policy Paper	
Problem	Provide one or two sentences which define the problem. *Example* • The vacancy rate for low-income multiple dwelling units has averaged 1% between 1988 and 1990 in Winnipeg. (Low-income is defined by Statistics Canada as having an average annual household income of $14,000).
Reason For Bringing Problem Forward	Explain why this problem is being brought forward at this time. It could be a whole host of reasons including the persistence of the problem, its magnitude, legislative requirements, ministerial direction, central government direction, and so forth. *Example* • Ensuring the availability of affordable housing is enshrined in the provincial housing legislation. • The department of housing has monitored the above problem for the past three years and it would appear that it is not a temporary trend. Over the past three years the vacancy rate for low income multiple dwelling units has fluctuated between 1% and 1.6%.
Symptoms	List how the problem manifests itself. *Example* 1. Increased demand for low income multiple dwelling units. 2. Inadequate supply of low income multiple dwellings. 3. Increase in homelessness.

Model For Explaining The Purpose Of The Policy Paper	
Elaboration Of Symptoms	For each symptom listed, explain in specific terms what is happening and the impact of the symptom (i.e., why this is significant or why it matters). *Example* 1. *Increased Demand For Low Income Multiple Units* • The Rentalsman Office advised that over the three year period 1988 to 1990 there was a 30% increase in enquiries about where to find low income rental units and the difficulties in finding available units. • The non-profit shelters and temporary housing facilities in the City have collectively increased their annual intake over the three years by 35%. Moreover, 8 out of the 11 facilities indicated that they have lacked space on average 10% of the time annually over the three-year period. By contrast, over the period 1982 to 1987, the annual average rate of turning people away was 6%. • According to these facilities, the figures on increased demand do not include persons with mental illness who are no longer institutionalized. *Significance And Impact* • The recession, rate of unemployment and increased rural Manitoba migration to Winnipeg due to the economic downturn suggest that this problem will worsen over the next two to three years. Our economic analysis and forecasting indicate that if nothing is done to address the problem, the vacancy rate for low-income multiple dwelling will be between 1% and 0.5% over the next two to three years. You would continue as above with symptoms 2 and 3.
Context	Address questions such as: when did the problem/symptoms arise; what trends may have contributed to the problem; is the problem expected to be a long-term issue; are other geographic locations facing the same situation? *Example* • Historically Winnipeg has had a good supply of low income multiple dwelling units with an annual average vacancy rate of approximately 5% over the period 1970 to 1985. • There have been no low-income multiple housing starts since the termination of Federal funding incentives under program "X" in 1986. The Province's 50% contribution in the Federal program "X" ended with the termination of Federal funding. • The Province of Manitoba has a small program that supports the expansion of temporary shelters for low-income households. • Other provinces are facing a similar situation especially in Ontario and British Columbia where there is no funding support to shelters.
Desired Change (Outcome)	Be as specific as possible about the change that a policy response is expected to achieve. *Example* • To return the vacancy rate for low income multiple dwellings to its historical rate of 5% annually.

9.3 Risks Associated With Inadequate Explanation Of The Purpose

- The risk associated with inadequate explanation of the purpose of the policy is misallocation of resources (i.e., not targeting the right problem).

9.4 Questions To Ask Yourselves In Relation To Articulation Of The Purpose

- Have we explained the purpose for which the policy paper or presentation is being brought forward at this time including all the elements identified under **Section 9.2**?

SECTION 10: EVIDENCE

10.1 Back-Up What You Say

- If there isn't enough of the *right* type of evidence in a policy product, decision-makers will often defer decision-making until more information is provided. One of the main reasons why policy papers/submissions keep coming back to a department for more work, is the need for additional information (i.e., evidence).

- You need to make a reasoned and persuasive case for the positions you are putting forward in the policy product. To do this, you need facts to substantiate your arguments and the proposed policy direction. Here is an example of the type of statement that needs backing-up with evidence:

> "investment in municipal infrastructure has declined over the past 20 years and much of the infrastructure such as regional streets, major sewer and water pipes are over 30 years old and are therefore reaching the end of their life".

- Let's examine what needs to be added to the above example by way of evidence through the Evidence Checklist table.

An Evidence Checklist	
What Evidence Is Missing?	**Why Should This Evidence Be Added?**
• Data on the amount of decline in financial investment in municipal infrastructure.	• To determine whether the decline in municipal investment is significant enough to explain the current condition of the infrastructure (i.e., whether the condition is primarily the result of less funding).
• What explains the decline in investment over the past 20 years?	• Relevant because it may contain the seeds of the solution (refer to **Section 4** on the significance of properly understanding the problem and its symptoms).
• Might there be other key reasons for the worsening condition of municipal infrastructure?	• Are we sure that financial investment is the only key factor contributing to the worsening condition of municipal infrastructure? (A key question as it relates to proper diagnosis of the problem and ultimately the potential policy solutions.)
• Data on the actual condition of each category of municipal infrastructure.	• Allows us to know the severity and magnitude of the problem and how much of the infrastructure, by type, is reaching a critical breaking point. • Given that resources are not limitless, this type of information helps in prioritizing which infrastructure may receive funding (if the recommendation is for some type of funding initiative) and which infrastructure needs to be upgraded or replaced first.
• Is there any evidence that we consider essential but that is not available to us?	• Decision-makers need to know if there are limitations to the information provided and the nature of the data constraints as well as the resources required to generate/obtain such data.

10.2 Tip On Building A Case

Tip Λ Having irrelevant evidence or non-essential information is as bad as having too little evidence. To find the proper balance, try using the table in **Section 10.1** to help you review the merits of the evidence in your policy paper or presentation. For each piece of data or information you plan to include, ask yourself, "why is it necessary to have this and what does it contribute to the overall understanding of the problem/issue"? Also ask yourself, "are there any key statements that have little or no evidence to back them up"? The idea would then be to eliminate whatever is not making a direct and meaningful contribution and to correct any identified data gaps wherever possible. See **Section 10.3.**

10.3 Acknowledging Data Gaps

- In those instances where important data is not attainable for one reason or another, the policy product should flag the information gaps. Moreover, the policy product should identify what resources would be needed to obtain key data. Ministers need to be made aware of the limitations of the information that is provided to them and the policy capacity constraints that a department may be facing. See **Section 3.2**.

10.4 Risks Associated With Inadequate Evidence

- The Risks associated with inadequate evidence in a policy product are:
  - an unreliable basis from which to develop policies; and
  - decision-making that is not evidence based.

10.5 Questions To Ask Yourselves In Relation To Evidence In A Policy Product

- If we were the ones having to make decisions on the strength of the evidence we have provided, would we feel that we had been given sufficiently compelling evidence to make those decisions?

- Have we reviewed our policy product to determine if each piece of data included is relevant (i.e., can we justify to ourself why it is essential to include)? See **Sections 10.1 and 10.2**.

- Have we identified data limitations or gaps? See **Section 10.3**.

SECTION 11: OPTIONS

11.1 Presenting The Options

- It is not enough to consider options as part of the policy development process. The options considered need to be shared in the policy product. To be comfortable in making a decision on a recommended policy direction, would you not want to know what other alternatives were considered and their relative merits?

- Some departments hold the view that it is redundant to include policy options in each iteration of a policy initiative that is in development. Their view is that once the minister responsible, cabinet or a committee of cabinet have decided on the policy option that they want to have developed for further discussion, there is no need to include in future policy papers/submissions all the options that were considered and rejected. In some instances this approach may be appropriate while in others it may not. Factors to consider are whether the decision to focus on a particular option was made at an oral briefing. If so, it is a good idea in the written policy paper/submission to cover what the options are that were rejected and why. This can be achieved in the briefest way especially if a table such as the one in **Section 11.2** is used. The options that were rejected can also be in an appendix to a policy paper/submission.

- Another argument that is sometimes heard as the reason for not including the policy options in a policy paper/submission is that the minister knows the subject area well and knows that options were considered and has decided to submit to cabinet his/her recommended policy solution. This is all well and good, however, when the minister is asked questions about various options, he/she cannot be expected to recall the various arguments and evidence that relates to the pros and cons of the rejected options. Thus, it is useful to include in a submission information on options so that the minister's colleagues who have not been involved at earlier stages of option selection know about the various alternatives that were considered.

11.2 Presenting A Comparison Of The Options

- To facilitate comparisons between options and ultimately decision-making on a course of action, the assessment criteria used to evaluate each option need to be identified and the findings from the assessment need to be presented in a policy product. A systematic approach to a comparison of options not only makes it easier for those on the receiving end of a policy product, but you will find that by working through the model below, it can also help you identify information gaps and gaps in logic (see **Section 12)**. The example that follows is a continuation of the housing scenario under **Section 9.2** (it is invented and not based on actuality).

Model For Presenting A Comparison Of Options				
Description Of Options	**Criteria 1 Cost Impact On Government**	**Criteria 2 Implementation Considerations**	**Criteria 3 Legal Considerations**	**Criteria 4 Receptiveness Of Stakeholders**
Option 1 – Status Quo No Provincial participation in construction of low-income multiple units.	• No new costs incurred.	• Not applicable.	• Not consistent with legal responsibility to provide access to affordable housing.	• Does not address the rising problem documented above. • No available space within existing public housing to meet level of demand.
Option 2 – Provincial Funding Support To Non-Profits Provincial participation through a partnership approach with non-profit organizations.	• Proposed annual provincial funding of $2.00 M for two years. • To be funded from Housing's existing budget.	• No impact on Province because non-profits would construct and rent the units.	• Fulfills legal mandate.	• Non-profits were canvassed and they indicated a willingness to participate on a 50-50 basis.
Option 3 – Provincial Delivery Of Low-Income Units Provincial participation through direct delivery of new low-income units.	• Several sites are available at the outskirts of the City. • In an earlier decision Government directed the Department to sell these sites to a private sector developer. If the sites are developed as low income rental units, this will mean a financial cost to the Province in excess of the $2M in Option 2.	• Department of Housing does not have the necessary resources because it is phasing out its direct delivery services (to reduce administrative costs).	• Fulfills legal mandate.	• Although we have not canvassed clients, it is doubtful they would find the outskirts of the City suitable because bus service is limited and access to groceries and other services requires a car (generally, the client group do not have a car).

11.3 Tips On Presenting Options

Tip Λ Presenting the options does not have to be lengthy and detailed. In fact, a policy product should provide a *distillation* of the essence of the options and their merits.

Tip Λ Be as consistent as possible in the format of presenting each option. This makes it easier for persons receiving the information to compare the options and more importantly to draw conclusions based on such comparisons. For example if you have discussed one option in terms of its legal feasibility, comment on that aspect in relation to each option.

Tip Λ If you feel that it is necessary, in certain circumstances, to provide a fair amount of information about options then provide the details in an attachment.

11.4 Risks Associated With Not Presenting Options

- The risks associated with not presenting options in the policy product are:
  - uncertainty as to whether the most cost effective option is selected; and
  - uncertainty as to whether the option selected is the best one in relation to specific government objectives.

11.5 Questions To Ask Yourself In Relation To Presenting Options

- Did we present the options and the assessment of each option in such a way that the pros and cons of each are readily comparable by those who have to consider them? See **Section 11.2.**

- If we were making a decision based on our presentation of the options and their relative merits, would we find that the information we provided is adequate for us to make choices? If not, identify the additional evidence or explanations that need to be included to round out the picture (it may be that the "logic" needs strengthening). See **Section 12**.

SECTION 12: LOGIC

12.1 A Building Block Approach To Logic

- Logic is about:
  - the order in which you present the various points you want to make (i.e., sequencing); and
  - making a reasoned case (i.e., one can follow how you arrived at a particular conclusion or recommendation).

- The invented example below is typical of the type of gap in logic that is often found in policy papers:

  > "Without incentives the eco-tourism sector will not reach targeted potential growth levels. Manitoba's varied habitats within easy access offer Manitoba a new economic growth opportunity. It is recommended that government develop a package of incentives for eco-tourism operators in Manitoba".

- There are big leaps in logic in the above example. Was a case made for the recommended incentives? Was evidence provided to substantiate the point that without incentives this sector will not meet its potential growth? Was evidence provided to persuade us of the economic worthwhileness of investing in this sector?

- As you can see, there is a close link between logic and evidence. The two go hand in hand. If you do not have evidence, it is unlikely you will have logic. On the other hand, if you have a logical policy paper, it is more likely that you will have done a good job of providing evidence.

12.2 Tips On Logic

Tip Λ Approach logic as if you were constructing a building. In construction you start with the foundation, then the basement followed by the main floor and subsequent floors working your way up to the roof (logical sequencing). The plumbing and electric wiring are imbedded in the building before the walls go up. One would not for instance create the rooms and then insert the main wiring because that makes the job much more difficult and costly than it needs to be (reasoned case for the ordering of construction activities). Nor would one put in the windows before all the major construction activities are completed because there is risk of damaging the windows (reasoned case for the ordering of construction activities).

Tip Λ If time permits, have an external reader review the policy product (i.e., someone from your department or another department who has not been involved in the particular policy initiative). Often our intimate knowledge of the policy area makes it more challenging to step back and identify gaps in logic. Someone who has

limited or no knowledge in the given subject area is therefore a perfect litmus test for determining logical flow of the material to be presented.

12.3 Risks Associated With Not Having A Logical Policy Product

- The risks associated with not having a logical policy product are:
  - that it can lead to indecisiveness in decision-making; and
  - that it can lead to confusion and vagueness which may result in a policy initiative being "kicked back" for further work, thus making the policy development process more time consuming and costly for all concerned.

12.4 Questions To Ask Yourselves In Relation To Logic

- Have we reviewed the policy product from the point of view of whether it logically hangs together and flows?

- Have we had an external reader review the policy product to determine if he/she can follow the logic of what we are trying to say? See **Section 12.2.**

SECTION 13: CONSULTATION

13.1 Don't Just Do It, Tell Us About It!

- A policy product should briefly document who was consulted, why they were consulted and their position or concern. This need not be lengthy. In fact, this type of information lends itself well to being in an attachment. Remember though, whether it is in an attachment or the main policy paper, you need to summarize the information.

- There is a tendency in policy papers to gloss over the consultations by simply identifying which groups were consulted and noting that the policy recommendations are consistent with the issues/concerns raised with those who were consulted. That approach is a little too brief! It is useful to know some of the nuances of the positions taken by those consulted. Providing a breakdown of the outcome of consultations with each group need not become overly detailed either.

- There needs to be a logical link between information gathered from consultations and the policy direction that is being recommended. It is not enough to just include the results of the consultation. You need to answer the "so what" for the person who receives the policy product.

13.2 Tip On Consultation

Tip Λ Make sure that the policy product makes good use of the information gathered during consultations. Extract from the consultations any evidence that helps to explain the problem and its dimensions. If applicable, demonstrate in the policy product how the information from consultations makes a case for the type of policy response that is being recommended. If those consulted do not support the policy response being recommended, then the policy paper must flag this and explain the rationale for proposing what is expected to be an unpopular policy.

13.3 Risks Associated With Not Including Consultation In A Policy Product

- The main risk associated with not properly including the results of consultations is decision-making in the absence of knowing stakeholder/client reactions, preferences or likely response to the policy.

13.4 Questions To Ask Yourselves In Relation To Reporting On Consultation

- Did we identify all the persons/groups consulted and did we summarize the feedback from each person/group?

- If consultations took place in relation to potential policy solutions, does the policy product relate the findings from such consultations to the policy option being recommended?

SECTION 14: PRESENTATION

14.1 Brevity Is The Soul Of Wit!

- Don't overwhelm the reader or the persons being briefed with information. You may have collected far more information than what is appropriate to include in a policy product. Stay *focused on the absolute essentials* without which one would simply not grasp the nature of the problem. A few key facts are worth far more than mountains of background information.

- Use attachments judiciously. Don't include attachments simply on the basis that someone might be interested in their content. Likewise, don't treat attachments as a general "dump" of information, statistics and technical material. Each attachment should meet the test of the criteria here on the policy product. This means, converting the content of attachments into brief, clear, simply written documents that add value to the policy product. The person reviewing a policy product should be able to easily extract the relevance of each attachment.

14.2 Tips On Presentation

Tip Λ Be creative in your presentation of the material. Make your presentations more inviting to review by making them more user-friendly (e.g., use tables, charts and diagrams). Make it easier for the reader to compare between options or to compare feedback from different stakeholders consulted by bringing the information together in a table. See for example **Sections 9.2**, **11.2** and **13.2.**

Tip Λ If time permits, have an external reader review the policy product (i.e., someone from your department or another department who has not been involved in the particular policy initiative). Often our intimate knowledge of the policy area makes it more challenging to step back and identify if we have been as clear and concise as we could be in our presentation. Someone who has limited or no knowledge in the given subject area is therefore a perfect litmus test for determining if we have been brief and to the point without compromising comprehension of the material.

14.3 Risks Associated With Inadequate Presentation

- The main risk associated with inadequate presentation is inefficient use of time (i.e., taking up more time from senior government officials and members of government than is otherwise necessary to understand what policy advisors are attempting to communicate).

14.4 Questions To Ask Yourselves In Relation To Presentation

- If we had to make some policy decisions on this problem, what would we need to know in order to comfortably make decisions?

- Does the information in attachments, provide an important link to the main policy paper/submission?

- Is there anything in an attachment that ought to be in the main body of the policy paper?

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RELEVANT COURSES AVAILABLE THROUGH ORGANIZATION AND STAFF DEVELOPMENT (OSD), MANITOBA CIVIL SERVICE COMMISSION

Below is a listing and brief description of a few OSD courses that relate to various aspects of policy development.

Group Facilitation Skills (Relates to Section 1 of the Guide)

Description

The facilitator attends to the process of change. To facilitate is to elicit, sustain and enhance change to help others to accomplish what they want. Facilitating a meeting is to let go of controlling others toward predefined results and help the group accomplish what they want. This workshop is for managers, supervisors, directors, community specialists and anyone who facilitates groups or meetings.

Topics

The Focused Conversation Method:

- Provides a structure for clear dialogue and reflection.
- Probes beneath the surface.
- Encourages a diversity of perspectives.

Workshop Method:

- Engages the participation of each group member.
- Focuses the group's consensus.
- Builds an effective team partnership.
- Enables you to facilitate large groups.

Project Management - An Introduction (Relates to Section 1 of the Guide)

Description

This two-day workshop is designed to assist people with little or no project management experience to manage their own projects and to lead team projects.

Topics

- What are projects, project management and project managers.
- Know the destination: goals and objectives.
- Project terms of reference.
- Laying a route: work breakdown, structure, schedule, critical path and budget.
- The human side: resources, responsibilities and relationships.
- Making headway: controlling scope and reporting progress.
- Reaching the destination: pulling it all together.

Decision Making (Relates to Sections 4, 5 and 6 of the Guide)

Description

How to make decisions that are reasonable, supportable and minimize risk.

For those who have to make choices in a demanding work environment and would benefit from a proven model for picking the most suitable alternative.

Topics

- A comprehensive and effective process for making decisions.
- How to apply the decision making process to your work situation.
- The conditions that support good decision making practices in the workplace.

Consulting Skills (Relates to Section 7 of the Guide)

Description

How to manage the consulting relationship to ensure useful results are achieved and to resolve the "real" issues.

For those who act in an advisory or consulting capacity and help clients solve organization problems or implement change.

Topics

- Identify the strengths you bring to a consulting relationship.
- Clarify what clients need as opposed to what they want in order that you can provide a valuable service.
- Learn an effective process and the related techniques to increase the likelihood that your advice will be used.
- Increase your effectiveness in working with clients.
- Apply what you learn to a "back home" situation.

Focus Groups - Planning and Facilitation (Relates to Section 8 of the Guide)

Description

Discover an innovative way to gather quick, qualitative information about how your service or program is being received by your end user.

For employees involved in program measurement, program change or new implementation, providing products or services. Use the focus group method to ensure you are doing the right things right.

Topics

- Definition and Uses of Focus Groups.
- Qualitative Research.
- Steps in Focus Group Method.
- Conducting the Focus Group.
- Reporting the Findings.

The Art of Writing Effective Reports (Relates to Part C of the Guide)

Description

Does your anxiety level increase when you're faced with writing a report? Do you struggle with getting started and then second-guess yourself about structure and format? Eliminate those concerns and roadblocks; learn to write your reports efficiently and with confidence.

Topics

- Writing for the Reader
- The Writing Process
- Controlling Sentence Length
- Writing with Energy and Enthusiasm
- Camouflaged Verbs
- Active vs Passive Voice
- Controlling Paragraph Length
- Topic Sentences
- Creating Flow
- Characteristics of Effective Reports
- Formatting
- Parallel Structure
- Report Overview
- Word Watch
- Guidelines for Capitalization
- Guidelines for Writing Numbers
- The Apostrophe
- Subject and Object Pronouns
- Guidelines for Punctuation

Presentation Skills (Relates to Section 14 of the Guide)

Description

This two-day workshop is designed to help participants produce more effective presentations. Content of the course includes making presentations of various types to different types of audiences: including preparation, and delivery.

Topics

- Create your professional presentation.
- Define your objectives.
- Develop your opening and closing, and determine your content.
- Create visual aids and handouts.
- Make your presentation FUN.
- Communication styles.
- Controlling your presentation anxiety.
- Your body: make every move count.
- Delivering your presentation with POWER.
- Marking a script.

For further details about any of these workshops please call:
Karen Meelker at (204) 945-4911 or Jackie Desrochers at (204) 945-3190
Organization and Staff Development
Registration forms are available on line at
www.gov.mb.ca/csc/osd/registration/regforms.html

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Mission

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Honesty
Integrity
Openness

IN ACHIEVING OUR VISION AND MISSION

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Independence
Balanced Perspectives
Professional Excellence

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Prime Minister's Strategy Unit

Strategy Survival Guide

July 2004

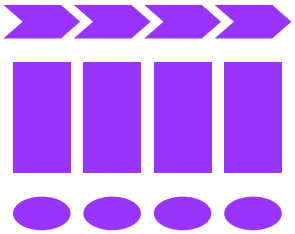
strategy unit

Home

The Strategy Survival Guide aims to support strategy development and promote strategic thinking in government. It encourages a project-based approach to developing strategy and describes four typical project phases. It also discusses a range of skills and useful tools and approaches that will help to foster strategic thinking across government. It is offered as a resource and reference guide, and not intended as a prescription or off-the-shelf solution to successful strategy work.

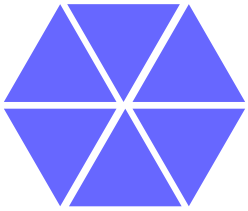
The Strategic Capability Team at the Prime Minister's Strategy Unit exists to support government departments in understanding and applying the content of the guide.

Strategy Development



Typical tasks and outputs of each phase of a strategy project

Strategy Skills



Useful tools and approaches for thinking strategically

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> **Introducing Strategy** - an introduction to strategy and strategic thinking

> **How to Use the Guide** - tips to help you find what you need

> **About Us** - background to the Strategy Unit

> **Register** - we'll inform you when the guide is updated

The Strategy Survival Guide is work in progress. The Strategy Unit would welcome your **comments and suggestions**.

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Last updated: 01.07.2004

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Introducing Strategy

An Introduction to Strategy in Government

Strategies help organisations think through what they want to achieve and how they will achieve it. Putting strategies into practice and acting strategically ensures that they are focused on the things that really matter – not buffeted by events or short-term distractions – and are able to allocate their resources accordingly.

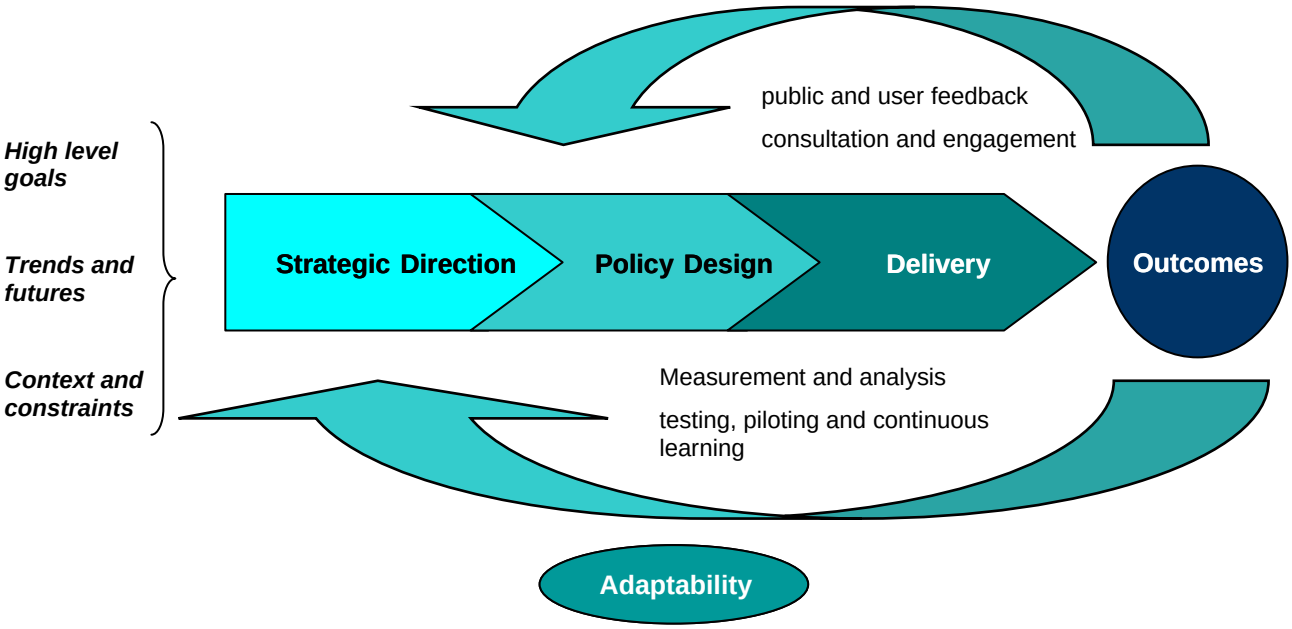
There is a huge literature on strategy in business and in warfare; strategy in government is similar, but tends to be more complex. It generally involves multiple goals rather than one single bottom line and it is implemented through a wide range of policy instruments, including laws, taxes and services. Far from being a neat linear process, it is shaped by unexpected events and political pressures. It also often needs to be more visible and accountable than strategy in other fields.

As a rule, the best strategies in governments and public services are:

- clear about objectives, relative priorities and trade-offs
- underpinned by a rich understanding of causes, trends, opportunities, threats and possible futures
- based on a realistic understanding of the effectiveness of different policy instruments and the capacities of institutions (strategies that work well on paper but not in practice are of little use)
- creative - designing and discovering new possibilities
- designed with effective mechanisms for adaptability in the light of experience
- developed with, and communicated effectively to, all those with a stake in the strategy or involved in its funding or implementation.

Strategies vary greatly. Some are very precisely defined and imposed top-down through organisational hierarchies. Others emerge in a more evolutionary and co-operative way from discussions, experiments and learning.

In either case, taking a strategic approach should ensure that decisions on strategic direction, policy design and delivery are seen as an end-to-end process of change management, with constant testing, feedback, learning and improvement. In a democracy, the end purpose will be to create **public value** – services and outcomes that are valued by the public. Policies need to be developed within the framework of a longer-term strategy, taking into account the practicalities of implementation. All strategies need to be adaptable, with quick feedback and effective information flows to respond to new information, and take account of changing circumstances or unexpected events.



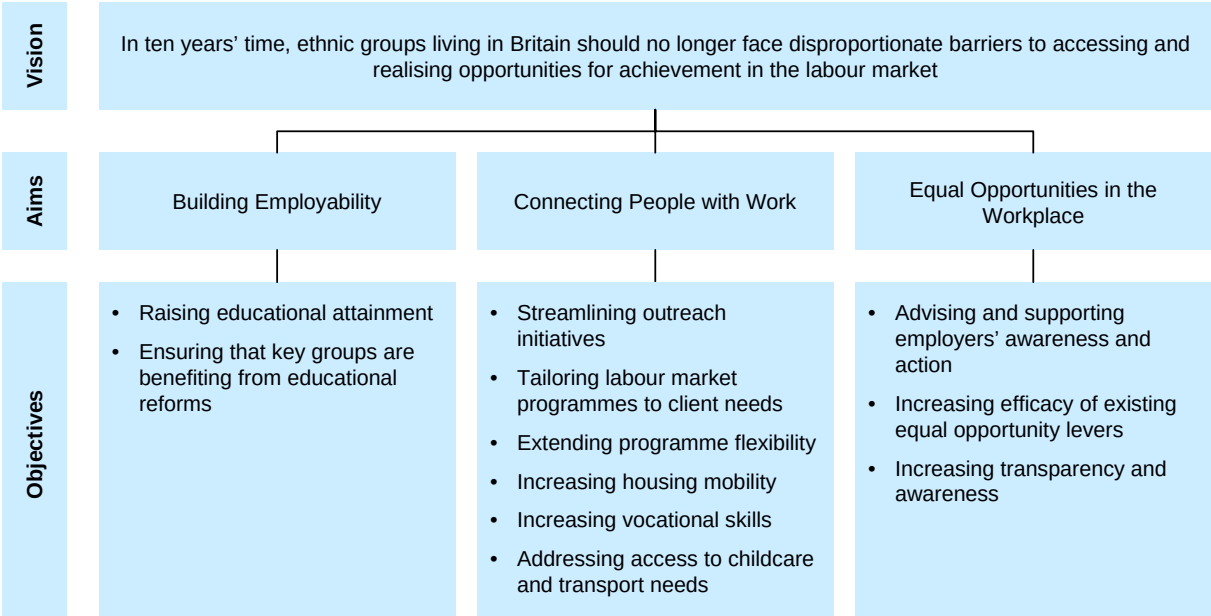
A Framework for Strategic Direction

A strategy needs to provide a clear sense of direction – based on analysis of different strategic choices and their implications. Defining the strategic direction or desired way forward will often involve a vision, together with aims and short, medium and long term objectives that provide a coherent and consistent framework for co-ordinating government activity:

- a **vision** is a statement of aspirations describing a desired future
- **aims** are the outcomes needed to bring about that desired future
- **objectives** are those things that need to be achieved in order to realise these outcomes.

An example from a Strategy Unit project is set out below:

Strategic Framework - SU Ethnic Minorities and the Labour Market Project



In addition to a framework setting out strategic direction, strategies need to provide evidence-based policy recommendations to act as a clear route map of how the objectives will be delivered. Examples of strategies developed across a broad range of government policy areas can be found on the Strategy Unit's **website**.

The Relationship Between Strategy and Policy

The terms strategy and policy are used in many different ways, and sometimes interchangeably. For the purposes of this guide, the following definitions are used:

- **Strategy** is the overall process of deciding where we want to get to and how we are going to get there.
- **Strategic direction** describes the desired future and sets out what needs to be achieved in order to bring it about. It provides the guiding principles that give context and coherence to action.
- **Policy** provides the means of moving in that direction – and often a number of policies need to work together to deliver particular strategic outcomes. Policy design work is concerned with identifying how to achieve strategic objectives, selecting the most suitable policy instruments for doing this, and detailing how these instruments will work in practice.

The relationship between strategy and policy is very close, and should be highly interactive. Strategies should be developed together with a realistic idea of how they might be realised, and policies should exist within a strategic framework that explains how they contribute to desired outcomes.

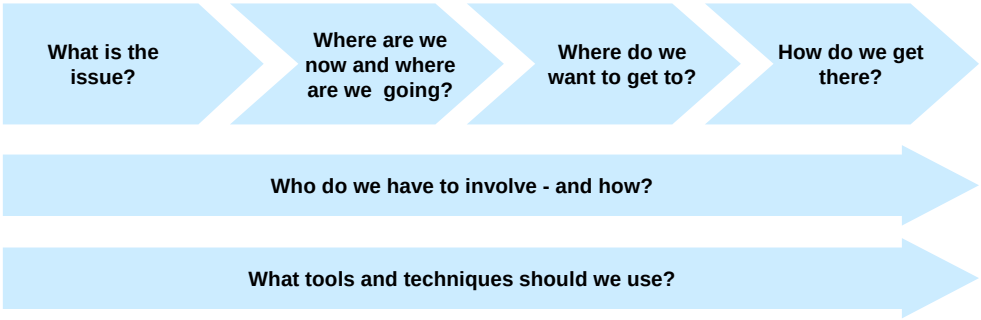
Divorcing strategy and policy creates the risk of setting unachievable strategic objectives and allowing policy programmes to develop legitimacy from their longevity rather than their contribution to meeting public needs. Close integration will help to ensure that strategies are implemented using the most suitable policies, and that different policies are not contradictory, but work together towards strategic outcomes.

The Relationship Between Strategy and Delivery

Strategies and policies that are not deliverable are of little use. Strategy work needs to involve frontline practitioner knowledge from the outset, and proceed grounded in a realistic understanding of delivery capability. Feedback mechanisms are needed from delivery back into strategy and policy design in order to create adaptable learning systems that can evolve in the light of experience and unexpected results.

Questions for Strategy Development

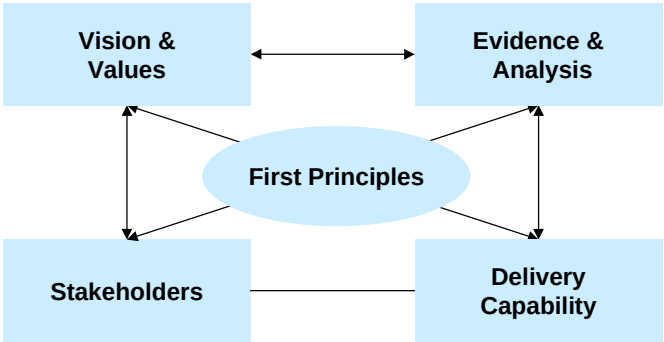
As the underlying framework that guides government thinking and action, strategy is concerned with asking and answering a number of questions. The diagram below demonstrates that while strategic issues may be highly complex and ambiguous, the questions at the heart of strategy development are searching yet fundamentally simple. This in no way detracts from how difficult it can be to answer these key questions, but provides a valuable anchor at times when the complexity is overwhelming.



The first four questions (across the top of the diagram) cut to the heart of strategy development by establishing an understanding of the world as it is today and determining the desired state of the future. The further two questions (underpinning the process) recognise that effective strategy development can not occur in either an ivory tower or black box, but must occur collaboratively using open and transparent methods and approaches. These questions are closely mirrored by the typical phases of a **strategy development** project and highlight the importance of the full range of **strategy skills**.

Components of a Strategic Approach

In practice, strategic thinking may not be as linear as the above questions suggest, but may involve a more iterative consideration of a number of key components.



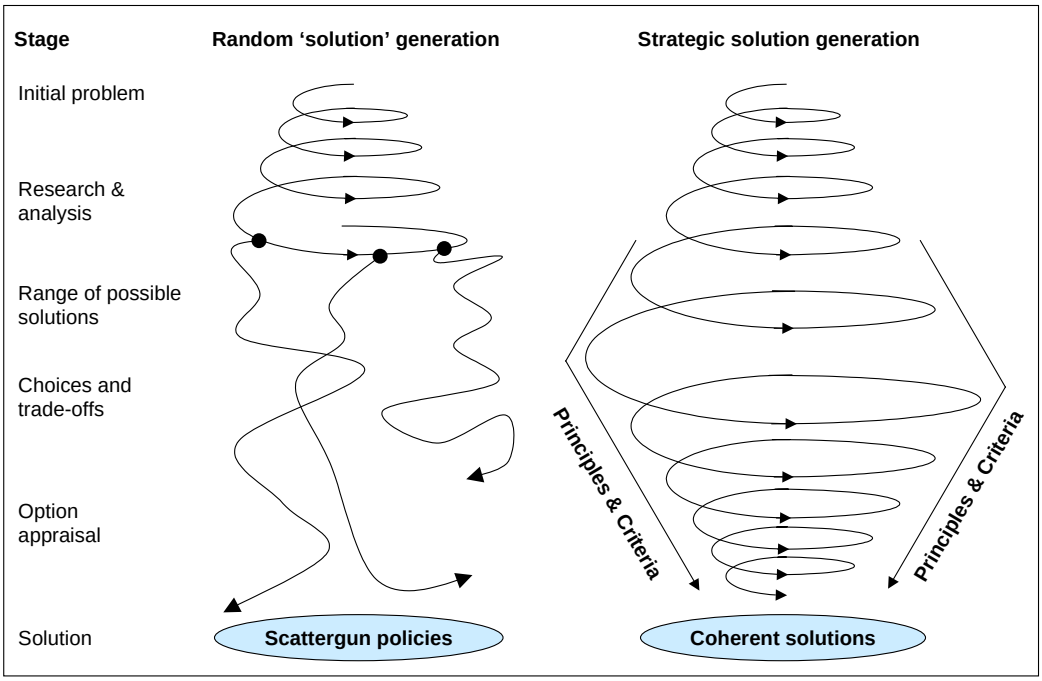
- **Vision & Values**: a vision of the desired state of the future founded on government's wider values and principles, that sets priorities, recognises trade-offs and describes the relationship to and fit with strategy in other policy areas.
- **Evidence & Analysis**: an understanding of the current situation, trends and likely states of the future, together with their drivers and causes, and a realistic evaluation of the effectiveness of different policy instruments. This should be based on a broad evidence base including economics, science, social research, statistics etc. and placed within a context of benchmarks and international comparisons.
- **Stakeholders**: a deep appreciation of their views, concerns and perspectives and a plan for how they should be involved in strategy and policy development, and the role they may play in delivery.
- **Delivery Capability**: an evaluation of the delivery system, and the culture and available resources of organisations within it, that highlights potential barriers to change and successful delivery.

These four components need to be considered objectively from **first principles** to identify the real issues, challenge implicit assumptions and question existing approaches.

A development in any one of the components may provide the initial impetus for fresh strategic thinking and drive a need to develop thinking in the other components. In the same way, strategy development is often an iterative process with the components developing and evolving in response to each other.

Strategic Solution Generation

Implicit in adopting a strategic approach is a rational and reasoned process for developing solutions. In contrast to an ad-hoc approach that is likely to result in a more 'random' set of solutions, a strategic approach is underpinned by **guiding principles** and a set of **appraisal criteria** that frame the generation and appraisal of alternative options.

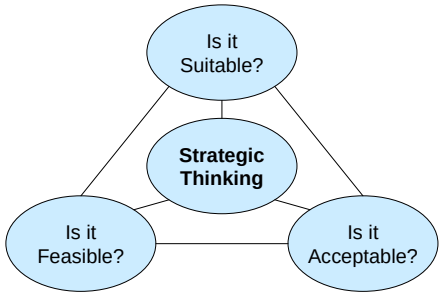


The appraisal criteria that should be used for this process are applicable to all decisions about government action, and address the suitability, feasibility and acceptability of each option:

- **Suitability** – do the proposed actions address the key issues and will they be able to deliver desired outcomes?
- **Feasibility** – can the proposed actions be delivered with the potential system capabilities and resources?
- **Acceptability** – is there sufficient political and public support to legitimise the proposed actions?

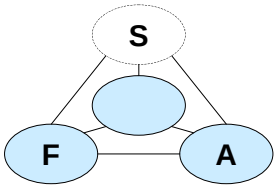
Maintaining a Strategic Perspective

The need for strategic thinking extends far beyond the realms of a formal strategy development project. At all stages of policy design and delivery, a strategic perspective is needed to ensure that government action is focused on and capable of meeting the true needs of the public. The questions posed by the three criteria of suitability, feasibility, and acceptability form the basis of such a strategic perspective.



In a dynamic world, public managers and policymakers need a strategic perspective to keep these three key questions in mind, and act to redress any gaps:

Suitability Gap

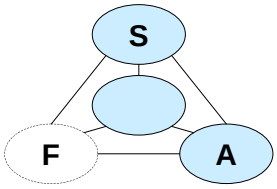


A suitability gap is created when public service actions and approaches are no longer a suitable response to public needs. This may occur for reasons including:

- the original problem or need has changed or resolved
- tensions arise with other strategic objectives or priorities
- new evidence informs a change in overall desired outcomes
- escalating or unacceptably high adverse impacts become apparent.

When public policy is no longer adding value, a strategic perspective is needed to challenge the suitability of actions and reallocate resources to address prevalent needs.

Feasibility Gap

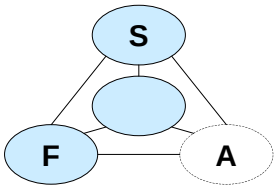


A feasibility gap is created by an inability to deliver desired outcomes. This situation may arise for many reasons, including:

- underestimation or unavailability of the resources and capabilities needed to address the key issues
- inconclusive evidence for how to address the key issues
- insufficient incentives for innovation, transfer of best practice and continuous improvement in the system
- diminishing returns requiring disproportional effort to extract benefit beyond the initial quick wins.

In this instance, a strategic perspective is needed to align spending with strategic priorities, and develop a more capable delivery organisation or system. Alternatively, if the feasibility gap is too large, there may be a case for challenging the strategic objectives in favour of more realistic goals.

Acceptability Gap



An acceptability gap is created by the absence of sufficient political or public support to legitimise action. This can occur for reasons including:

- a lack of public engagement in strategy development, including a lack of understanding of the need for change
- changes in the environment leading to shifting views about the strategy
- innovative front-line organisations responding to public needs and evolving beyond their original remit.

A strategic perspective encourages effective stakeholder engagement and a strong evidence base that demonstrates the problem and the suitability of the proposed action for addressing it. Strategies also need to be adaptable enough to encourage innovation and entrepreneurialism in meeting public needs.

Building Strategic Capability

Building strategic capability, both in terms of the ability to develop strategies and the ability to maintain a strategic perspective in day to day operations, requires a focus on creating:

- demand for better strategy work from Ministers, CEOs, Directors, and senior officials
- a culture of bottom-up challenge and 'rocking the boat' that encourages strategic thinking
- organisational structures and processes which reinforce demand for a strategic approach
- a strong evidence base that provides an accurate understanding of issues and how to respond them
- skilled and confident people with diverse experience and access to best practice resources.

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References

The Strategy Unit discussion paper **Creating Public Value** describes the concept of public value, and how it can be used to think about the goals and performance of public policy.

How to Use the Guide

The guide is structured around two sections. The **Strategy Development** section discusses the process of conducting a strategy project and the **Strategy Skills** section addresses the skills that are required for successful strategy work.

An Overview

For the new user, the best way to get an overview of the content of the guide is to read the **Introducing Strategy** section and the summary pages for each of the project phases and strategy skills as set out below:

Strategy Development

- Justification & Set Up
- Research & Analysis
- Strategic Direction Setting
- Policy & Delivery Design

Strategy Skills

- Managing People and the Project
- Managing Stakeholders & Communications
- Structuring the Thinking
- Building an Evidence Base
- Appraising Options
- Planning Delivery

The Strategy Development Section

Having read the summary pages for the four project phases, a more in-depth understanding of any particular phase can be developed by reading through a number of more detailed pages. Each summary page provides links to the following detail:

- typical tasks
- example outputs
- management issues that should be considered
- typical questions that should be asked
- relevant skills.

The Strategy Skills Section

The summary page for each strategy skill contains links to a number of helpful tools and approaches. Together these make up a 'toolkit' for the strategy practitioner – using the right tool for the job will help to improve the efficiency and effectiveness of strategy work.

'In practice' examples are provided to illustrate how each tool or approach has been applied in recent strategy work, and references are provided for those wishing to find further information. Where appropriate, blank templates are also provided.

Other Sources of Government Guidance

The Strategy Survival Guide aims to support strategy development and strategic thinking. Further sources of guidance for those responsible for taking strategies forward into policy design and delivery include:

- The **Green Book** from HMT – supporting the appraisal of proposals and evaluation of activities
- **Policy Hub** and the **Magenta Book** from GCSRO – encouraging the use of research and evidence in policy making
- **Successful Delivery Toolkit** and **Gateway Process** from OGC – supporting the management of procurement and delivery programmes and projects.

About Us

History of the Strategy Unit

The Prime Minister's Strategy Unit is part of the Cabinet Office. It was formed to provide a clear focus for strategic thinking and policy analysis at the heart of government. It formally began operating in July 2002 through a merger of the Performance and Innovation Unit, the Prime Minister's Forward Strategy Unit, and part of the Policy Studies Directorate of the Centre for Management and Policy Studies. The Unit reports to the Prime Minister through the Cabinet Secretary.

The Strategy Unit has four main roles:

- undertaking long-term strategic reviews of major areas of policy
- undertaking studies of cross-cutting policy issues
- working with departments to promote strategic thinking and improve policy making across Whitehall
- providing strategic leadership to social research across government.

The Unit's Approach to Strategy Development

The Unit has a project based approach to developing strategy. Most projects are announced to Parliament and short papers outlining the scope of each project and project reports (including those produced by the Performance and Innovation Unit) are published on the Strategy Unit **website**. Teams are tailored to the needs of each project. Most are small multi-disciplinary teams that bring together civil servants and a wide range of people from outside government, including those responsible for implementation and delivery.

Based on the belief that rigorous analysis is an essential foundation for strategy development, the unit fosters an evidence-based approach. It also promotes an open approach believing that involving people early on greatly increases the prospects of sustainable change.

The Strategic Capability Team

Established in 2003, the Strategic Capability Team are dedicated to fulfilling the Strategy Unit's remit to work with departments to promote strategic thinking and improve policy making. In addition to publishing this guide and promoting strategy best practice through coaching, training and networks, the team are focused on working with departments to help them assess and improve their ability to create implementable strategy and meet their most important strategic challenges.

Government Chief Social Researcher's Office

The Government Chief Social Researcher's Office (GCSRO) was set up in October 2002 to provide strategic leadership to social research across government. It aims to co-ordinate research planning and access to research knowledge across government, and ensure high skill levels and quality standards.

Contact Us & Registration

Register To Receive Updates

The Strategy Survival Guide is work in progress and is updated at regular intervals. If you would like to be notified when a new version of the guide is published please **register** your details.

The Strategy Unit

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Strategy Development

Effective strategy development requires the mandate to challenge, the space to think and the commitment of stakeholders. For these, and many other reasons, strategy work is best undertaken within the context of a clearly defined project that can act as a focal point for generating momentum behind a change in conventional thinking.

Although the process of developing strategy is complex and often iterative in nature, strategy projects tend to naturally move through a number of phases. The framework below describes these phases together with typical tasks and example outputs. The management issues and questions that often arise at each phase are also highlighted.

The framework provides a helpful reference point but should not be interpreted as a template. In practice the phases are unlikely to be entirely discrete and sequential, tasks may actually span across phases, and phases may need to be revisited as the true complexity of the project unfolds.

Phases

Tasks

Justification & Set Up
- Justifying the project
- Clarifying the issues
- Planing the project
- Setting up the team

Research & Analysis
- Gathering knowledge
- Analysing knowledge
- Reviewing delivery capability

Strategic Direction Setting
- Developing guiding principles
- Articulating a vision
- Defining strategic aims and objectives

Policy & Delivery Design
- Developing policy options
- Detailing policy options
- Appraising policy options
- Planing the roll out

Outputs

Project proposal & plan	Interim analytical report	Preferred strategic direction	Final report & delivery plan
> **management issues**	> **management issues**	> **management issues**	> **management issues**
> **questions**	> **questions**	> **questions**	> **questions**

Strategy Development > Justification & Set Up

Phase

Justification & Set Up

Tasks

- Justifying the project
- Clarifying the issues
- Planing the project
- Setting up the team

Output

Project proposal & plan

> typical **management issues** in this phase

> key **questions** to ask in this phase

As the need for fresh strategic thinking starts to emerge, it is important to bring clarity to the scope, rationale and approach for the proposed work.

At this early stage it is important to:

- demonstrate the need for the project
- identify and structure the issues that need to be addressed
- plan how the project will be structured
- pull together an appropriate team.

Justifying the need for the project is key to securing buy-in from stakeholders and generating momentum behind the need to challenge conventional thinking. This will require a close examination of the issues in order to define and agree the scope of the project. It is also helpful at this stage to identify a Minister or senior official that can act as the project's sponsor.

Clarifying the issues to be addressed will also help to highlight logical workstreams for the project and hence necessary roles and responsibilities within the team. This should be documented in a project plan along with a commitment to particular outputs and milestones, an assessment of risks to the project's successful completion, and a description of the proposed project governance structure. Even at this early stage the project plan should be accompanied by a plan for stakeholder engagement and a communications strategy.

Throughout this phase it will become increasingly clear what kind of project team will be needed. By the end of the phase a team should be in place that is large enough to handle the expected workload, has all the necessary skills and experience and is acceptable to all the key stakeholders.

It can take a significant amount of time to clarify and agree the issues to be addressed with stakeholders, to agree the project budget and to recruit the right team. As a result this phase can often take longer than initially expected. It is however a crucial foundation for the rest of the project and plenty of time should be allowed for it.

Skills relevant to this phase include:

> **structuring the thinking**
> **managing people and the project**
> **managing stakeholders and communications**

Strategy Development > Justification & Set Up > Tasks

Justifying the project

Before embarking on a project, it is important to define and justify the need for the project. This helps to assess whether the right questions are being asked, whether a review can really add value, whether someone else should lead it, and whether the timing is right. Rigor at this stage pays substantial dividends later on.

The justification exercise should:

- define the problem to be addressed
- articulate the vision and values driving the need for the project
- identify work that has been done to date on this issue
- consider whether there is a clear **rationale for government intervention**
- assess the feasibility of having an impact on the problem
- anticipate the expected resource requirements
- seek to establish a mandate for the project
- identify a suitable sponsor for the project (for example: Secretary of State, Minister or Permanent Secretary).

In some cases this exercise will make it clear that the timing isn't right, or that someone else is better placed to do the work. If the exercise confirms the need for a strategic review it will help the project to hit the ground running.

The desired outcome of this exercise is that the and all key stakeholders have common expectations and high level of commitment to the project. Establishing a mandate in this way before the project starts is important if the team is going to effectively challenge the status quo and develop strategy from **first principles**.

Producing a project proposal or terms of reference document that answers the above questions will help secure such early buy-in.

Useful links:

> **rationale for government intervention**
> **first principles thinking**

Strategy Development > Justification & Set Up > Tasks

Clarifying the issues

The complex and cross-cutting nature of strategy projects mean that at the outset it is important to develop a clear articulation of the issue to be addressed, and agree this with all key stakeholders. This will help to define the scope of the project, identify any fixed boundaries that are not open to review and set expectations for its outputs.

This exercise should go further than defining the overall issue to be addressed by breaking it down in a logical way to highlight all the sub-issues. A powerful tool for structuring the issue in this way is an **issue tree** which generates a logical family-tree style hierarchy of issues and sub-issues.

Mapping out the entire 'issue space' in this way is useful for a number of reasons:

- it generates a detailed understanding of the relevant issues
- it helps to identify the true root causes of an issue
- it provides a focus for initial discussions with stakeholders to understand their view points
- it highlights potential modules of work, or workstreams, for the project
- it provides a structure and framework for subsequent data gathering and analysis.

Clarifying the issues at this early stage will also help the team to stay focused, help each member to know how their work fits into the whole, and act as a reference later in the project to check that the team has achieved what it set out to achieve.

Useful links:

> **issue trees**

Strategy Development > Justification & Set Up > Tasks

Planing the project

Having gained commitment to the project and its scope from stakeholders, it is important that the project is planned in detail. An accurate, well-maintained and frequently referenced project plan is essential to **managing the project** successfully.

Although taking time to plan is crucial to the success of the project, planning is often neglected or rushed in the haste to get onto the more interesting analysis phase of the project, especially when stakeholders or ministers are keen for project results. However, planning is the whole basis of project management philosophy and it is vital to do it well. Team leaders should expect to spend as much as 30% of their time project planning.

Taking a step back to develop a project plan before diving into the detail has a number of benefits:

- it helps forge a common vision across the team
- it provides coherency between different strands of the project
- it helps to think through tasks and anticipate potential roadblocks
- it highlights trade-offs on issues of time, budget, breadth and depth of analysis
- it helps anticipate long lead-time activities
- it helps manage key stakeholder expectations of what is in and out of the scope for the project, what the team is doing, and whether the project is on track
- it provides an 'anchor' when difficulties develop.

The plan should go into significant depth on the project's rationale and approach, including how the work will be **structured**, what the key **milestones** will be, and how the main **risks** will be mitigated or minimised. In addition the plan should set out the intended approach for **managing stakeholders and communications**, and define the **project governance** structure.

Finally, the extent to which the project will be in the public domain should be agreed. The sensitive nature of some projects may mean that it is not appropriate to announce them publicly.

Useful links:

> **developing the plan**
> **structuring the work**
> **setting milestones**
> **managing risks**
> **defining accountability**
> **managing stakeholders and communications**

Strategy Development > Justification & Set Up > Tasks

Setting up the team

Up to this point, many of the initial tasks of justifying, planning and defining the scope of the project may have been conducted by one or two individuals, one of whom may be earmarked as the future team leader. However, as momentum builds behind the project, a full team will need to be established to take on the growing work load.

Recruiting the Team

The task of **recruiting a team** may not be as simple as it sounds. Careful attention should be given to the necessary size, composition and skills of the team across the lifecycle of the project, as well as to selecting an appropriate team leader. Consideration should also be given to the benefits of including in the team representatives of key stakeholders and any delivery agencies who will also be involved in implementation of the strategy following the end of the project. This can be crucial to creating buy-in to the project as well as to knowledge transfer and continuity.

Building the Team

It is important that the team leader takes an active approach to **building a team**. Different team members will have different styles of working, strengths and weaknesses. The aim of team building is to create an environment that brings out the best in individuals and a cohesive team that works well together. There are various tools and exercises which can assist in building a successful team.

Working as a Team

A well-defined and understood approach to **working as a team** is essential, particularly if working in multi-disciplinary teams is a new experience for team members. Holding both a project kick-off meeting and an away-day at the start of the project is a useful way of developing the team's working approach. This should be supplemented by regular, well structured team meetings throughout the course of the project. Weekly team meetings should be supplemented by additional ad hoc meetings on key issues as they arise. Team communication, document management and other procedures should also be agreed during this phase. It may be beneficial to assign responsibility for specific project management activities and areas such as knowledge management or encouraging creativity to particular individuals within the team.

Useful links:

> **recruiting a team**
> **building a team**
> **working as a team**

Strategy Development > Justification & Set Up > Output

Project proposal & plan

The first output, towards the beginning of this phase, is likely to be a project proposal, scoping or terms of reference document that sets out a clear definition of the problem in hand. The document may be extensive or simply a few pages, its exact form should be whatever is deemed necessary to ensure buy-in to the project from sponsors and stakeholders.

In addition, this phase should result in documentation that sets out the proposed approach to managing people, the project, stakeholders and communications.

As a minimum, a **project plan** should include:

- a full definition of the problem or issue to be addressed, and the key questions that need to be answered
- a **structure** for breaking down the problem, framing subsequent analysis and organising the team
- a commitment to key **milestones** and outputs
- an assessment of **risks** to the projects successful completion and how they may be mitigated
- a description of the **project governance** structure.

Plans should also be drawn up to describe the intended approach for engaging with and involving **stakeholders** throughout the project, and to set out the intended **communications** strategy.

It should be noted that these documents can only fulfil their function as the foundation for embarking on the project if they are effectively communicated, and fully understood and agreed within the team and by all key stakeholders.

Useful links:

> **developing the plan**
> **structuring the work**
> **setting milestones**
> **managing risks**
> **defining accountability**
> **managing stakeholders and communications**

Strategy Development > Justification & Set Up > Management Issues

A large part of this phase is taken up with management tasks that lay the foundation for the project. The management task, however, is by no means over. The project plan should be continually evaluated and revised in the light of changing circumstances, and stakeholders will need to be involved and managed throughout the project.

Project Management

The first issue to be addressed is that of gaining buy-in and commitment to the project. This is essential if the project is going to have any impact, and if the necessary resources are going to be made available. The main project management task in this phase is the development of the **project plan**. This will involve defining and structuring the problem, committing to key milestones and outputs, identifying risks, and agree the project governance structure.

People Management

A team should be recruited that has the right mix of skills and experience and is large enough to handle the expected work load. Consideration should be given to the benefits of including representatives of key stakeholders or delivery agencies within the team. Roles and responsibilities within the team should be defined and agreed, and an active approach should be taken to team building and ensuring the team work well together.

Stakeholder Management

The process of developing a **stakeholder engagement plan** will involve identifying and establishing contact with key stakeholders. It is important to start to understand their issue and concerns, and use this to both inform the vision driving the project, and the criteria by which the final strategic direction will be selected.

Communications Management

Even at this early stage a **communications strategy** should be developed that sets out what and how the team intend to communicate about the project, particularly in relation to the media.

Useful links:

> **managing people and the project**
> **managing stakeholders & communications**

Strategy Development > Justification & Set Up > Questions

This phase will help to address questions such as:

Is there a genuine need for a project?

- What is the problem that needs to be addressed?
- What are the vision and values driving the need for the project?
- What work has been done to date on this issue?
- Is there a clear case for government intervention on this issue?
- How feasible is it that the project will be able to have an impact on the problem?
- What level of resources will be required for the project?

What are the issues that the project will address?

- What are the sub-issues?
- How will we research and analyse these issues?
- What are the main concerns of each of the key stakeholders?

How will the project deliver its objectives?

- How should the team be structured?
- What is a logical way to break down the work into workstreams?
- What should be the roles and responsibilities of each team member?
- What will be the outputs of the project?
- What are the key milestones and deadlines?
- What are the main risks to the success of the project, and how will they be managed?

What kind of project governance structure is most appropriate?

- Who is the most appropriate Minister or senior official to act as the project's sponsor?
- Should there be an expert advisory panel?
- Should there be a steering group?
- Who should be involved in each?

Who are the key stakeholders?

- What are the interests & views of each stakeholder?
- How supportive and influential is each stakeholder?
- What should be the role of each stakeholder and how should we engage and involve them?
- How will we communicate with stakeholders and others?
- To what extent should the project be in the public domain?

What kind of project team is most suitable?

- What skills and experience will be needed in the team?
- Should any of the key stakeholders be represented on the team?
- How can we involve representatives from the relevant delivery agencies in the team?
- How can we encourage the team to work together most effectively?
- What modes of communication will be set up within the team?
- How will the team deal with knowledge management?

Strategy Development > Research & Analysis

Phase

Research & Analysis

Tasks

- Gathering knowledge
- Analysing knowledge
- Reviewing delivery capability

Output

Interim analytical report

> typical **management issues** in this phase

> key **questions** to ask in this phase

Once the project has been agreed and a project plan is in place, the team can start to lay the foundations for developing evidence-based strategy and policy by:

- identifying and gathering all relevant available qualitative & quantitative knowledge
- analysing it to generate understanding and insights.

This phase is concerned with developing an accurate understanding of the issues in hand and accessing the best available knowledge for how to respond to them. In practice, this will lead to an iterative process with new data requirements arising as the team's thinking evolves. Within the time scales of the project it is also likely that judgements will need to be made to bridge gaps in the available knowledge, which should themselves be used to inform the priorities for ongoing research.

There are a wide range of tools and techniques for gathering and analysing data. Links should be established with government specialists early in the process so that their expertise can be brought to bear with maximum effect.

Understanding the dynamics of the delivery system, and the culture and available resources of organisations within it, will provide valuable context. It will help to highlight the degree of change required by the new strategy and identify any potential constraints to its successful delivery.

The desired outcome is that the team develops a comprehensive and accurate understanding of the key facts that may have a bearing on the emerging strategy. The broader the reach of the analysis within the time available, the richer the picture that will emerge.

It can be valuable to conclude this phase with the publication of an interim analytical report. This will focus the team's efforts, invite challenge and feedback, and provide a common platform of understanding for developing strategic options in the next phase.

Skills relevant to this phase include:

> **structuring the thinking**
> **building an evidence base**
> **managing people and the project**

Strategy Development > Research & Analysis > Tasks

Gathering knowledge

The starting point for this phase of the project is to gather relevant data, information, and knowledge to build an accurate understanding of the issues in hand, and the effectiveness of past and present policy responses.

There are many different **data types & sources** available, and also many methods for gathering new knowledge, including **surveys** and **interviews and focus groups**. The data, sources and methods used will depend very much on the nature of the project. Each type of knowledge has distinct sources, grammars, and appropriate methods of use and interpretation. The key challenge is to strike the right balance between quantitative and qualitative types of knowledge.

Before initiating any new research effort it is important to identify existing data and critically appraise it to ensure it is of sufficient quality, perhaps using methods such as systematic reviews or meta-analysis as outlined in **The Magenta Book**. Early links should be established with the full range of government specialists (economists, scientists, social researchers, statisticians etc) as well as those in the wider academic and research community in order to seek advice and avoid duplication of effort.

The design of this phase should be informed by the structure developed when clarifying the issues using techniques such as **issue trees** in the last phase. This will enable the data gathering and analysis process to be hypothesis led and avoid the need to 'boil the ocean' of all available sources. Although options should not be blocked off and the information gathering process unduly narrowed, the process will be more efficient if the team's efforts are focused around its emerging notions of the way forward. It is important to regularly revisit the hypotheses in the light of the emerging evidence from the data.

Gathering Sponsor & Stakeholder Perspectives

Understanding the different perspectives of the sponsor and key stakeholders is a crucial part of the knowledge gathering process. Taking time to understand the sponsor's perspectives will make it easier to ensure that the project answers their key concerns. It will also provide understanding of the political context behind the issue or problem. Similarly, it is important to be fully informed about the perspectives of different stakeholders. Interviews with key stakeholders, including experts, practitioners and frontline staff – who often have a richer understanding of the position than managers or experts – will assist the stakeholder mapping process and should feed into the stakeholder engagement plan. Listening to different perspectives can provide new lenses for looking at the issues and suggest alternative solutions.

Managing the Knowledge Gathering Process

It is crucial to factor in sufficient time for the knowledge gathering process. New sources will undoubtedly emerge as the process proceeds, which will require additional time to investigate – for example, interviewees may suggest other people to interview. However, it is also important that the team is not distracted by areas that are not the core focus of the project.

Where significant data and knowledge do not currently exist, new research may need to be commissioned. The conclusions of this research may not be available within the time scales of the project, however strategies need to be designed to be flexible enough to respond to new knowledge as it emerges.

Useful links:

> **data types & sources**
> **surveys**
> **interviews and focus groups**
> **The Magenta Book**

Strategy Development > Research & Analysis > Tasks

Analysing knowledge

The knowledge that has been gathered needs to be analysed to **build an evidence base** to support the forthcoming strategy and policy design work. Providing an objective, factual foundation is very important, and will help to ensure that all stakeholders have the same understanding of the issues at hand. Some flexibility may be needed to modify the original problem definition in the light of the analysed knowledge.

Current Position

It is important to generate an accurate and comprehensive picture of the current state of affairs. Using historical time-series data to show trends over time, it is also helpful to explain the drivers of change that have resulted in the need for the strategy project. Techniques such as **modelling** and **market analysis** can be used at this stage to understand the dynamics and economics of the system.

Relative Position

Making value judgements about the current position is made easier if it is placed in context. Using **international comparisons** and **benchmarking** can be a powerful way to learn lessons from other countries or policy areas and set expectations for what can be achieved.

Possible Futures

Finally, techniques such as **forecasting**, **scenario development** and **counterfactual analysis** should be used to build on an objective view of current reality and trends to generate insights into possible futures. Potential risks, shocks or uncertainties that may cause deviation from expected trends should also be identified. This will ensure that the team has the best possible chance of developing a strategy that will not only address current issues, but also remain effective into the future.

Useful links:

> **modelling**
> **market analysis**
> **international comparisons**
> **benchmarking**
> **forecasting**
> **scenario development**
> **counterfactual analysis**

Strategy Development > Research & Analysis > Tasks

Reviewing delivery capability

The knowledge gathering and analysis process should also generate an understanding of the structure and dynamics of the delivery system, and the culture and resources of organisations within it. This will provide valuable context for the development of the new strategy by identifying the strengths that can be built upon, highlighting inefficient structures and processes that need to be re-visited, and gauging the overall capacity of the system to change. Considering delivery capability at this stage, rather than as a post-strategy implementation exercise, is essential if the new strategy is to be truly deliverable.

System Structure & Dynamics

The starting point for reviewing delivery capability is to understand the structure and dynamics of the system. This will involve understanding the role of each organisation in the delivery system and the nature of the relationships between them. It will be of particular interest to examine each organisation's focus and priorities and explore the degree to which these are shared across the system. In addition, the sources and formulae for funding, the flows of information, and the arrangements for accountability and decision making all play a key role in determining the dynamics and performance of the system.

Organisational Culture

An understanding of organisational culture will highlight the context in which any change will have to take place. The underlying values and beliefs of a culture shape the more visible aspects of an organisation such as behaviours and systems, and will have an important influence on the capacity of an organisation to adopt the implications of the new strategy. Identifying key decision-makers and those who hold power is also important for gaining buy-in and ensuring successful delivery.

Available Resources

Consideration should also be given to the available resources and competencies of organisations in the delivery system. Identifying relevant areas of expertise will enable the new strategy to be shaped to capitalise on existing strengths. It is also helpful to identify any gaps in an organisation's activities or competencies, and any existing resource or budget commitments, that may limit their ability to deliver the new strategy.

This understanding of delivery capability provides a guide to the starting point and the context for future change. As the new strategy is developed it will help to identify the extent of change required for successful implementation, and provide an indication of how feasible this will be.

Useful links:

> **organisational analysis**

Strategy Development > Research & Analysis > Output

Interim analytical report

The output from this phase should be a document that sets out the findings of the team's research and analysis. By publishing an evidence base or data set in this way, a common platform is created among stakeholders for moving forward.

An interim analytical report is a useful way of setting out the results of the analysis and the emerging conclusions within an initial story line. For example:

- what is the situation?
- what are the problems?
- what is the relative significance or impact of the different problems?
- what is causing the problems?
- how do we currently tackle the problems?
- is this working?
- how is the situation likely to change in the future?

It is important to start drafting the report as soon as possible. Starting the drafting process early will allow time for thinking about the story line, and help to shape the data gathering and analysis work. An interim analytical report will also help to consolidate thinking on the overall structure of the final report.

The interim paper will take some time to produce so sufficient time must be factored into the project plan. Consideration should also be given to the audience for the report, and how it will be communicated. For example, if there is to be a public consultation, it will be beneficial to publish the report on the Web.

Useful links:

> **managing stakeholder & communications**

Strategy Development > Research & Analysis > Management Issues

At this stage in the project, project management is often neglected. Team members are concentrating on the detailed data gathering and analysis and it can be easy to let project management slip. The project plan and stakeholder engagement plan should be continually referred to and updated. During this phase the communications plan should also be evaluated to identify any weaknesses.

Project Management

The vision and key hypothesis driving the work should be reviewed in the light of the emerging evidence from the data gathering and analysis. Where the desired granularity of data is not available within the time scales of the project, a pragmatic approach will be needed to make judgements based on the data that is available. Milestones should also be reviewed to check the project's progress and ensure it is still on track.

People Management

It is important that workstreams are reviewed and confirmed. Team roles and responsibilities can then be reviewed and agreed. Regular feedback should be sought from the team on how they feel the team is working.

A meeting of the project **Steering Group** to advise on emerging analysis may be helpful towards the end of the phase. This could involve a presentation of the interim analytical report. **Preparing presentations** using techniques such as storyboarding will help to check the logic before presenting it and ensure that all the supporting information is available before writing the slides.

Stakeholder Management

Stakeholders should continue to be actively engaged and consulted through activities such as the publication of consultation papers (online and/or in paper format), holding seminars and using focus groups.

It is important to be very clear with stakeholders and sponsors about the project process and their role in order to maximise the value of their contribution and secure their continued buy-in.

Communications Management

A public consultation exercise is a helpful way of structuring consultation with stakeholders. The Internet is a useful tool, and should be used in conjunction with a small number of meetings or seminars. Planning for any public consultation should commence early in the project, as it will take time to develop an effective process, prepare consultation documents and plan communications.

Knowledge Management

The information gathered in this phase should be organised in a logical way. At this stage of the project, the role of a knowledge management 'champion' is crucial. For example, notes should be made of each meeting and interview and kept centrally to allow all team members to access them. Electronic data, including a database of all contacts, should also be organised on a project shared drive in a logical way. Hard copies of documents, books, and publications should be catalogued and a system for accessing documents from the project "library" should be established.

Useful links:

> **managing people and the project**
> **managing stakeholders & communications**

Strategy Development > Research & Analysis > Questions

This phase will help to address questions such as:

What data do we need to support the strategy development?

- How should we structure the data gathering process?
- How much data is readily available?
- Will we need to commission any primary research to collect data?
- What methods are most appropriate for collecting the data we need?
- What is the right balance between qualitative and quantitative data?

What analyses do we need to support the strategy development?

- How should we structure the data analysis?
- Which other policy areas or countries provide helpful comparisons?
- What are the key trends influencing the current position?
- What are the dynamics and economics of the system?
- What is the likely state of the future?
- What other analyses will be needed to answer the key questions?
- How does the original problem definition need to change in the light of the analysis?

What is the system and organisational context for the new strategy?

- What is the role, focus and priorities of each of the organisations in the delivery system?
- What are the funding, information sharing, decision making and accountability arrangements?
- What are the underlying beliefs and core values of the culture of each organisation?
- What impact will this culture have on the ability to deliver the new strategy?
- What are the existing organisational resources and areas of expertise?
- Are there any obvious gaps in capability that may act as delivery constraints?
- Are there any existing commitments that may limit the resources available or the extent of change?

What are the views of the sponsor and each of the key stakeholders?

- What is the political context for the project?
- What are their key concerns?
- Do the buy-in to the emerging evidence base?

How will we communicate the findings of this analytical phase?

- Do we need to have a public consultation process?
- Should the interim analytical report be published on the web?

Strategy Development > Strategic Direction Setting

Phase

Strategic Direction Setting

Task

- Developing guiding principles
- Articulating a vision
- Defining strategic aims and objectives

Output

Preferred strategic direction

> typical **management issues** in this phase

> key **questions** to ask in this phase

Having established a comprehensive body of knowledge, attention can be focused on setting a strategic direction to guide policy and delivery design.

This will typically involve:

- developing a set of guiding principles that will provide the foundation for strategy and policy development
- articulating a vision that describes the desired state of the future
- defining a set of aims and objectives that will need to be achieved in order to bring it about.

Work in this phase lays the foundation for developing a suitable, feasible and acceptable response to the problem at hand. It highlights the choices and trade-offs that will need to be made, and aims to ensure that government action is focused on a vision for meeting public needs; through organisations with ability to deliver; with the support of the political and wider stakeholder community.

It is vital that the transition from setting strategic direction to planning for implementation should not be a discrete step but occur in an iterative fashion. Considering the likely resources required to meet each strategic objective in the light of the delivery constraints identified in the previous phase will help to ensure that only achievable strategic objectives are set.

This phase should result in a consistent and coherent articulation of strategic direction that defines the objectives for policy development.

Skills relevant to this phase include:

> **structuring the thinking**
> **appraising options**
> **managing people and the project**
> **managing stakeholders and communications**

Strategy Development > Strategic Direction Setting > Tasks

Developing guiding principles

Strategy work aims to shape government's long term direction and approach. Rather than just being a collection of good proposals, strategies should establish underlying principles that provide a coherent reference point for future decision making. These guiding principles should form the foundation for government action, and provide a consistent basis for the ongoing development of policies capable of delivering strategic objectives in a changing world.

Establishing a set of guiding principles is the pivotal point in the strategy development process between reviewing the world as it exists today, and starting to define the desired state of the future. There are a number of key considerations:

- **Rationale for Government Intervention**
  An evaluation of the **rationale for government intervention** is central to clarifying the nature of the problem in hand, and the role that government can play in addressing it. Exploring the root causes of the problem will help to highlight why government action may be needed, allowing the benefits of intervention to be weighed against its potential costs and the distortions it may cause.

- **Existing Government Values and Principles**
  It is important to identify and understand the values and principles already established and held by government. For example, the **Principles of Public Service Reform** are a set of guiding principles that any additional strategic thinking must either adhere to or explicitly challenge. Other existing principles may be explicitly or implicitly recorded in manifestos, Spending Reviews, Budgets and White Papers. In addition to centrally defined principles, relevant department-specific values and principles should also be sought out and evaluated to assess their bearing on future strategic direction.

- **Public and Political Will**
  The guiding principles should establish common ground with the wider public and political arena. Effective **stakeholder engagement** and participation throughout the strategy development process is central to gauging opinion accurately.

Useful links:

> **rationale for government intervention**
> **Principles of Public Service Reform**
> **effectively engaging with stakeholders**

Strategy Development > Strategic Direction Setting > Tasks

Articulating a vision

A key part of developing strategy and setting strategic direction is articulating a vision for the desired state of the future. A vision is a concise summary statement describing the world as it would ideally exist if current issues could be fully addressed.

By this stage in the project the aspirations driving the vision may already be widely acknowledged. Whether or not any further work is necessary, the articulation of a vision and the subsequent definition of aims and objectives will draw on a number of key inputs:

- **An Understanding of the Problem**
  A fundamental prerequisite is an accurate and informed understanding of the problems or issues at hand. The research and analysis phase will have helped to differentiate between root causes and symptoms of problems and enabled some prioritisation of the issues. In this way it will also have highlighted the factors within the wider **system** that can be most effectively influenced for maximum impact on the problem.

- **Consideration of the Evidence**
  Strategic thinking should be informed by the widest possible evidence base. This should include an understanding of drivers and trends, an exploration of potential alternative futures, an appreciation of the relevant cultural and political context, and a recognition of any constraints or barriers to potential alternative delivery options.

- **Stakeholder Perspectives**
  Although the views, concerns, and perspectives of key stakeholders inform the development of strategy at every stage, there is no greater focal point for their lobbying than the process of setting strategic direction.

It is at this stage that officials are encouraged to be radical in their proposals. The process of articulating a vision and setting objectives provides the opportunity to explore ministers' appetite for ambitious **change**. Potentially risky or extreme solutions should not be screened out too early in the process but instead used to challenge and test their thinking.

Useful links:

> **systems thinking**
> **change management**

Strategy Development > Strategic Direction Setting > Tasks

Defining strategic aims and objectives

As the desired state of the future is described in the vision, strategic aims and objectives are needed to define those things that need to be achieved in order to bring it about. A small number of broad aims need to be supported by a range of more specific objectives defined over the short, medium and long term.

At this stage the primary concern is 'what' needs to be achieved rather than 'how' – which will be more fully addressed through policy design – however some broad appreciation of the policy packages that might deliver each objective will help to ensure that realistic objectives are set. In addition, some sense of the likely level of support for each idea will provide an indication of its chances of success. In summary, it is important to set objectives that are:

- **Suitable** – addressing key issues and able to deliver desired outcomes
- **Feasible** – achievable with potential organisational and system resources
- **Acceptable** – with the support of those with the authority and influence to legitimise action.

The process of defining alternative aims and objectives will highlight the choices and trade-offs that will need to be made. These will need to be considered together with the emerging vision, to select those that best describe and are able to deliver the desired future.

Generating Alternatives

In addition to a structured consideration of the problem, the evidence and stakeholder perspectives as discussed in **Articulating a vision**, a **creative** approach to generating possible alternative objectives may be helpful. For example, brainstorming potential objectives in terms of radical, medium and cautious change may help to generate fresh insights. **Scenarios** can also be a useful tool to help identify potential opportunities and envisage preferred futures. A range of alternative objectives should be sought over the short, medium and long term as milestones towards the desired future expressed in the vision.

Selecting Objectives

The crystallisation of strategic direction occurs with the selection of the preferred set of aims and objectives. The alternatives should be subject to scrutiny with regards to their suitability, feasibility and acceptability. It may be beneficial to have a two-stage selection process, allowing alternatives short-listed to be worked up in more detail before the final selection is made.

Involving stakeholders in the generation and selection of alternative objectives will help to ensure buy-in to the resulting strategic direction, reducing the risk of dissent in the longer-term.

Useful links:

> **creativity techniques**
> **developing scenarios**

Strategy Development > Strategic Direction Setting > Output

Preferred strategic direction

The primary output from this phase will be the definition of the new strategic direction, which as far as possible will have the support of the project's sponsor and all key stakeholders. However, a degree of judgement and discernment will be needed to know when is it right to set a new course despite opposition. Even the most successful reform programmes may start life as controversial proposals, and take leadership and commitment from government to set the strategic direction and see it through to fruition.

The strategic direction will be expressed through:

- A vision describing the desired state of the future
- A number of aims and short, medium and long term objectives that need to be achieved in order to bring it about.

Although it is unlikely that a formal written document will be appropriate at this stage, a working document describing the preferred strategic direction will help to ensure common understanding.

Strategy Development > Strategic Direction Setting > Management Issues

Project Management

The project management plan should be reviewed and revised in response to any changes in priorities, milestones, or meeting dates. Initial thought should also be given to the project end game. For example, how the final report will be produced and communicated.

People Management

Team roles, responsibilities and workstreams should continue to be monitored and progress assessed. It may be an appropriate time for informal mid-project appraisals and to seek feedback from the team.

This is also the time to start thinking about whether any changes are required to the composition of the team. For example, to bring in more policy-oriented team members who can start working up policy options in order to achieve the strategic direction being identified. Involving representatives of delivery agencies will also help to ensure strategy is grounded in front line reality and help to secure buy-in. At this stage in the project it may be useful to have another team-building event, particularly if there are new team members coming on board.

Stakeholder Management

Continued active management of stakeholders will be required. In particular, it is important to unpack the meaning of 'we' when asking "where do we want to be?". Many initiatives fail because 'we' is assumed to be clear. However, different elements in government, the public sector and private sector will have different ideas. It is therefore fundamental to confirm that there is a clear and united 'we' at this stage.

In particular, at this stage in the project it will be important to meet with stakeholders to discuss emerging strategic options. This will enable agreement to the proposed option to be secured, and also to test how radical the subsequent policy recommendations can be. It is important that the analysis is presented clearly and logically, with a compelling story. The storyboarding technique can be of assistance when **preparing presentations**. The stakeholder management plan should be revisited and revised according to any changes in stakeholder support or influence.

Communications Management

The communications plan should also be reviewed and revised in the light of any changes. Communications during the phase should be evaluated to identify any problems and lessons learned. Thought should also start to be given to how to communicate the project outputs at the end of the project.

Useful links:

> **managing people and the project**
> **managing stakeholders & communications**

Strategy Development > Strategic Direction Setting > Questions

This phase will help to address questions such as:

What should be the guiding principles underpinning strategy in this area?

- What is the rationale for government intervention?
- Which existing government principles are relevant to this area?
- What relevant principles or values exist at the department level?
- Is there a clear will amongst the public or politicians for how to approach the issues?

What is the vision for the future?

- What are the real problems and issues that need to be addressed?
- What are the drivers and trends?
- What are the potential alternative futures?
- What is the cultural and political context?
- What are the constraints or barriers to potential delivery options?
- What are the views, concerns and perspectives of key sponsors and stakeholders?
- How radical are ministers prepared to be?
- How does the vision fit with strategy and vision in other areas?

What aims and objectives could be set to realise the vision?

- What needs to be achieved in the short, medium and long term to realise the desired future?
- Where are the biggest opportunities to create public value?
- What choices and trade-offs will need to be made?
- What is the organisational and system capacity available?
- What kind of support can be expected from those with authority and influence?

What is the preferred strategic direction?

- How suitable is each objective for addressing the key issues and creating public value?
- How feasible is each objective given the available delivery resources and competencies?
- How acceptable is each objective to key stakeholders?
- How robust is each objective under possible future outcomes?

Is the team working to maximum effectiveness?

- Does the current division of work and responsibilities still make sense?
- Is now the time for an informal mid-project appraisal for team members?
- Should any changes be made to the composition of the team as policy work draws closer?
- Is there a clear paper trail, and well organised documentation for future reference?

Strategy Development > Policy & Delivery Design

Phase

Policy & Delivery Design

Tasks

- Developing policy options
- Detailing policy options
- Appraising policy options
- Planning the roll out

Output

Final report & delivery plan

> typical **management issues** in this phase

> key **questions** to ask in this phase

The final phase of the project is concerned with designing policies that will deliver the chosen strategic direction, and planning for their implementation.

It will involve:

- developing alternative policy options and identifying appropriate policy instruments
- narrowing down the number of options under consideration by appraising them against a broad set of criteria
- progressively detailing the remaining options
- using the appraisal criteria to select the preferred option(s)
- planning the roll out of the policies.

It can be helpful to adopt a creative as well as a structured approach to generating policy options, which should consider the full range of ways in which government might intervene. As each option is developed, increasing consideration should be given to designing not only the policy itself, but also the system for delivering it.

As in the last phase, involving stakeholders – particularly those responsible for implementation – in developing policy options and planning their roll out, is central to the success of this phase and indeed to the success of the entire project.

The detail of the final policy proposal and the plan for its roll out should be documented in a final report and implementation plan. Agreement and commitment to this plan will mark the conclusion of the strategy development process.

If due attention has been given to all key stakeholders, the outcome of this phase and of the entire project should be a shared recognition for the need for change, a common vision for the nature of change and clear ownership of the delivery of change.

Skills relevant to this phase include:

> **appraising options**
> **planning delivery**
> **managing people and the project**
> **managing stakeholders and communications**

Strategy Development > Policy & Delivery Design > Tasks

Developing policy options

Having set a strategic direction, policy design work is needed to determine how it can be achieved. The starting point is to identify alternative policy options and appropriate policy instruments for realising the vision and objectives. The full breadth of knowledge and evidence gathered in the Research & Analysis phase, including the organisational analysis, will be relevant and important inputs.

Generating Options

The generation of policy options is framed by the need to work both backward from the stated strategic objectives and forwards from the guiding principles. This will help to ensure that the options generated reflect the underlying values and principles driving the strategic direction as well as directly address the most pressing issues as prioritised by the strategic objectives.

This provides the opportunity for maximum **creative thinking**. Using **techniques** such as Brainstorming, 4 R's and six thinking hats can help to stimulate lateral thinking and spark the generation of hypotheses about potential solutions. In addition to this creative approach it is helpful to establish a systematic process for generating policy options. A structured process for generating options helps overcome 'blind spots' and prevents the team converging too early by focusing on what they think they know at the expense of that which they are unaware they don't know.

Stakeholder Participation

The participation of the public and key stakeholders in policy development should not be confined to a formal **consultation** exercise. There are many innovative ways of engaging them throughout the process that can lead to more informed, realistic and owned policies.

Selecting Policy Instruments

A fundamental part of developing policy options is the selection of policy instruments. In accordance with **Better Regulation Taskforce Guidance**, this involves recognising that regulation is only one of a wide range of options for government action, others include:

- Providing information , education and advice
- Encouraging voluntary agreements and self-regulation
- Using economic instruments
- Intervening directly by providing or commissioning a service.

There are many **alternative policy instruments** within each category, each with their own characteristics, benefits and limitations. It is essential for strategists and policymakers alike to recognise the implications of instrument choice, not least for the level of inter-dependency created between government and third parties and the additional complexity this creates.

Useful links:

> **encouraging creativity**
> **creativity techniques**
> **Code of Practice on Consultation**
> **BRTF Guidance: Alternatives to Regulation**
> **alternative policy instruments**

Strategy Development > Policy & Delivery Design > Tasks

Detailing policy options

Following the initial identification of policy options and appropriate policy instruments, an iterative process of appraisal and detailing is required to work towards a final policy proposal. As the appraisal criteria are applied to narrow down the range of options under consideration, so the importance and practicality of detailing the remaining options increases. Fully worked-up policy options will address:

What will be Delivered?

The proposed policy and choice of policy instruments defines what will be delivered and the vehicle for delivering it. For example this could be an incentive delivered through the tax system, a cash payment delivered using a loan, or a prohibition delivered through legislation. The new good or service to be delivered should be clearly defined and differentiated from policy programmes or projects already in place.

Who will Deliver it?

Identifying the organisations that will make up the delivery system is a key part of detailing a policy. This will involve identifying:

- the extent to which delivery will require the involvement of government departments and agencies, voluntary sector organisations or private sector players
- the extent to which the policy can be delivered through existing institutions versus the need to create new structures.

Drawing on the **organisational analysis**, this will begin to highlight the degree of **institutional change** required by the new policy.

What will the Rules be?

Having established who the players in the delivery system will be, it is necessary to define rules to shape how the system will operate. This will involve articulating the roles and responsibilities of each individual player, as well as the arrangements that will govern their interaction. Specifically, this should cover:

- **Accountability** – the balance of power and allocation and ownership of ultimate responsibility
- **Funding** – the mechanisms and formulae by which the policy will be funded
- **Success** – how players will be held to account for success and how it will be defined and measured
- **Incentives** – what additional incentives are required to drive outcomes.

As the paper **Better Policy Delivery and Design** discusses, designing a high performing delivery system is a highly complex task.

How much will it Cost?

Finally, alongside an increasingly quantified understanding of the benefits that the new policy will deliver, it will be necessary to detail the capital and operational costs associated with the policy and the expected spending schedule.

Useful links:

> **organisational analysis**
> **institutional change**
> **Better Policy Delivery and Design**

Strategy Development > Policy & Delivery Design > Tasks

Appraising policy options

The policy development process should be under-pinned by a progressively more formalised appraisal of alternative options according to a constant set of criteria. From the initial sense-check following the brainstorm to the final **cost-benefit analysis** or **regulatory impact assessment**, the same set of criteria should inform and frame the development and appraisal of policy options. These include:

Suitability – Will the option address the key issues and will it be able to deliver desired outcomes?

- **Rationale** – is there a clear case for government action?
- **Proportionality** – is the (cost of the) policy option proportionate to the (cost of the) problem?
- **Effectiveness** – how well will the option address the issue or problem?
- **Impact** – are there any unintended consequences? Are costs and benefits equitably distributed?

Feasibility – Is the option a realistic and practical possibility?

- **Capability** – will it be possible to implement and manage the option?
- **Accountability** – can clear accountabilities be established and aligned with incentives?
- **Affordability** – is there the money, and is it value for money against alternatives?
- **Risk** – can risks be identified and either mitigated or allocated and managed?
- **Control** – are there clear success measures and mechanisms for prompt feedback and learning?

Acceptability – Is the option supported by those with the authority and influence to legitimise action?

- **Participation** – has there been sufficient public participation and **consultation** in policy design?
- **Buy-in** – is there sufficient support from both internal and external stakeholders?

Accompanying the increasingly more formal application of these criteria should be a corresponding increase in the burden of proof required. An initial intuitive application of the criteria should be progressively replaced by an evidence-based approach such that the final appraisal of options, (using techniques such as **cost-benefit and cost-effectiveness analysis** or **multi-criteria analysis**), is fully grounded in a comprehensive body of evidence drawing on the full range of **data types** available.

In addition, and to help appraise each of the options against the above criteria, it can be helpful to:

- use **scenarios** to assess the robustness of the proposed policies against different possible futures
- use sensitivity analysis to explore the risks and uncertainties surrounding each policy option
- imagine the future created by each option and analyse for the unexpected or unacceptable
- seek the reaction of the expert advisory group or **focus groups** of practitioners or clients
- use **counterfactual analysis** to compare the potential impact and costs of each option against the likely impact and costs of doing nothing.

Useful links:

> **cost-benefit and cost-effectiveness analysis**
> **multi-criteria analysis**
> **Regulatory Impact Assessment**
> **Code of Practice on Consultation**
> **data types**
> **scenario development**
> **focus groups**
> **counterfactual analysis**

Strategy Development > Policy & Delivery Design > Tasks

Planning the roll out

Applying the appraisal criteria to a final short list of options should result in the selection of a preferred policy or set of policies. Once these have been fully detailed and agreed by key stakeholders, attention can be turned to planning for implementation. This will be focused around three key tasks:

Defining Success Measures

The foundation for planning the roll out is the definition of the indicators that will be used to measure success in moving towards the desired state of the future described in the vision. This provides the mechanisms for establishing clear accountability and responsibility for delivery.

Developing an Implementation Plan

The detail of how the new policy will be implemented should be documented and agreed by developing an **implementation plan**. This should be done in conjunction with all key stakeholders and especially those directly involved with delivery. By detailing all the actions that need to be taken and who will be responsible for each, the plan is a means of securing commitment and buy-in to deadlines, budgets and the overall conclusions of the project.

The plan should also help to identify those who will be responsible for monitoring and evaluating the progress of the implementation. Implementation is more likely to be successful if formal structures are created for this purpose.

The implementation plan should be checked by working backwards from final delivery dates to provide a sense check that it is really deliverable.

Developing a Change Management Plan

Implementing the new policies will inevitably require some degree of change to organisations, systems and processes. A pro-active approach to **change management** is essential if the benefits of the new policies are to be realised. Developing a change management plan is a way of defining and agreeing what change is required and how it will be brought about. Building on the **organisational analysis** conducted in the Research & Analysis phase, the plan should be grounded in a thorough understanding of the obstacles and constraints to change and lay out a realistic road map for achieving it.

In situations where high levels of uncertainty surround the effectiveness, impact or implications of a new policy there is a strong argument for running **pilot programmes** ahead of a full-scale roll out. Simulations can also play a valuable role in helping to predict the likely response to a new policy. Where a number of options have been identified for how to implement a policy, controlled experiments offer the possibility of observing rather than pre-judging which is the best option.

Useful links:

> **designing an implementation plan**
> **change management**
> **organisational analysis**
> **The Role of Pilots in Policy Making**

Strategy Development > Policy & Delivery Design > Output

Final report & delivery plan

> **template**

The final output from the project should be a report setting out the new strategic direction and detailed policy recommendations together with change management and implementation plans that clearly assign ownership and accountability for delivery.

Drafting the Final Report

Waiting until the very end of the project to start drafting the final report is generally not recommended. Writing it can take considerably longer than anticipated, and drafting as the project proceeds will ensure that key information is not missed, particularly if team members leave during the latter part of the project. Drafting an interim report at the end of the Research & Analysis phase will assist in this process.

Production of the Final Report

Planning for production of the final report should be done in good time and should feed into the project management plan. In particular, proof reading should be allocated sufficient time and resources. If the final report is to be produced professionally, the team should work closely with the printer to ensure their requirements are met. Consideration should be given to the number of reports are to be printed. The lead-time on the publication of an electronic report is naturally much shorter.

Securing Collective Agreement

The final report should be discussed with the client and key stakeholders to get formal sign-off. It may also be necessary to go through the formal process of securing **collective agreement** among departments. This can either be done through the relevant Cabinet Committee or through Ministerial correspondence and discussion. The relevant Cabinet Office secretariat can confirm whether the strategy requires collective agreement and identify which Cabinet Committee should be consulted. Sufficient time to secure collective agreement should be factored into the project plan. It may take longer than anticipated, at worst a number of months, particularly if ministers have other pressing priorities or don't like the outcome!

Useful links:

> **preparing presentations**
> **Collective Agreement**

Strategy Development > Policy & Delivery Design > Management Issues

People Management

In the latter stages of the policy design process, the team size is likely to reduce to a core team who will produce the final report and manage the transition to implementation. Activities such as final appraisals, wrap-up sessions and knowledge capture should be carried out before the team disbands. It may also be appropriate to celebrate the success of the project, bringing back any team members who have already left.

Stakeholder Management

Stakeholders, especially those with responsibility for delivery and implementation, should be closely involved in the identification and appraisal of policy options. The initial mapping of stakeholder interests and expectations should be revisited to assess their likely reaction to key proposals. Consulting and updating stakeholders throughout the project should reduce the risk of any surprises that could serve to de-rail the project during this final stage.

Policy recommendations should be presented to the Minister and Steering Group for approval. As in previous phases, **storyboarding** is a useful technique to make sure that messages are presented clearly and logically.

Once the project is complete, it is good practice to write and thank stakeholders and advisers for their time and input. It may also be appropriate to invite them to an event to celebrate the end of the project.

Communications Management

A plan should be developed for distributing the final report and communicating the key messages, both externally, where it may be beneficial to hold a press briefing, and internally where it might be necessary to present the project findings to Ministers and senior officials in other relevant departments. These presentations should be organised to coincide with the distribution of the final report, both to ensure the momentum behind the project isn't lost and that the relevant team members are also available to attend the meeting. Diary constraints will mean that dates have to be organised in good time.

If a public report is to be produced that will be of interest internationally, the team should liase with the Foreign Office to develop an international communications strategy. The FCO can advise as to how best to use the network of Overseas Posts and, if required, how to prepare a telegram to be sent to posts.

Two-way communication is also extremely important in the longer-term as the project is implemented. Ensuring continued dialogue between policy makers and those responsible for implementation will mean that future strategy and policy development projects are informed by operational learning.

Knowledge Management

The data, information and books etc collected during the project should be collated and catalogued. It should not be a big job if it has been done efficiently during the project. This will enable others to make use of the information after the project team disbands.

Another useful exercise is to conduct a "**lessons learned**" session. This is a good way to identify what went well during the project, what went less well and lessons for future projects or pieces of work. The output of this session can be presented back to other staff in the Department so that they can learn from the experiences of the project team.

Useful links:

> **managing people and the project**
> **managing stakeholders & communications**

Strategy Development > Policy & Delivery Design > Questions

This phase will help to address questions such as:

What are the policy options for realising each of the strategic objectives?

- What are the key pieces of knowledge and evidence gathered in the Research & Analysis phase?
- What organisational and system competencies could be utilised?
- How should the public and key stakeholders be involved in generating policy options?
- Which policy instruments could be used?
- What are the implications of the choice of policy instruments?

How could each policy option be developed into a workable solution?

- What will the new policy deliver?
- What kinds of organisations are needed in the delivery system?
- What will be the rules, roles and responsibilities within the delivery system?
- What are the expected capital and operational costs associated with the policy?

Which policies provide the most suitable option for implementing the strategy?

- How suitable is each policy option for addressing the issue in hand?
- How feasible is each policy option given the available delivery resources and competencies?
- How acceptable is each policy option to key stakeholders?
- How robust is each policy option under possible future scenarios?

What kind of change will the new policy require?

- What system or structural level changes are required by the new policy?
- What are the obstacles and constraints to change and how can they be overcome?
- Who will be responsible for delivering this change?
- How quickly does the change need to happen?
- Is there a need for pilots or controlled experiments?

How should the conclusions of the project be communicated?

- What should the final report look like?
- How many copies of the report need to be printed?
- To whom do we want to communicate the findings of the project?

What has the team learned through the project?

- What went well and what went badly, and why?
- What would be done differently next time?

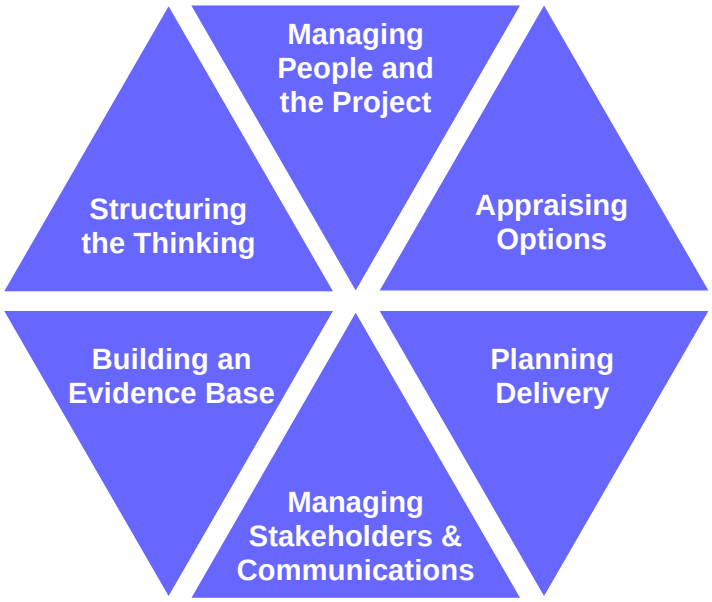
Strategy Skills

Successful strategies are rarely achieved by spontaneous flashes of genius, but rather result from the systematic collection, analysis and evaluation of facts, circumstances, trends and opinions.

In the same way, teams do not work to maximum effectiveness and strategies do not deliver full benefit unless explicit attention is given to understanding the motivations and developing relationships with the people involved.

Successful strategy work therefore requires a wide range of skills, including those below. Although each skill may prove to be of most use at a particular phase of a project, the relevance of each is by no means confined to any one phase.

Within each skill area there are a number of tools and approaches that can help to support strategic thinking. These are discussed together with 'in practice' examples from recent strategy work.



Strategy Skills > Managing People and the Project

Tools & Approaches

People

- Recruiting a team
- Building a team
- Working as a team
- Encouraging creativity
- Giving & receiving feedback

The Project

- Developing the plan
- Structuring the work
- Setting milestones
- Managing risks
- Defining accountability
- Evaluating the project

Managing People

Difficult strategic issues require creative and fresh thinking. To maximise the contribution of all participants, including stakeholders, to this process, effective people management skills are required throughout the project.

Particularly in the early phases of the project, attention needs to be given to **recruiting a team** of the right size, with the right skills and with the right team leader.

Once recruited, it can take time to transition from a group of individuals into an effective team. An active approach to **building a team** may be necessary given the short time scales of many strategy projects.

Working as a team also requires a clear articulation and common expectations of roles, responsibilities, modes of communication and decision-making, and an appreciation of different working styles within the team. Actively **encouraging creativity** is also an important way of maximising people's contributions.

Giving & receiving feedback is the iterative process by which the team optimise their performance. It should occur informally to enhance the day-to-day functioning of the team, as well as formally to provide appraisal points and aid long-term professional development.

Managing the Project

The overall co-ordination of the project to ensure the timely delivery of an acceptable and effective strategy requires excellent project management skills.

At the outset of a project, it is helpful to document the proposed management approach in a project plan. **Developing the plan** aids explicit communication, and helps to ensure common expectations. The plan should be continually revised and updated as the project progresses.

The team leader should determine the best way of **structuring the work** to get the most out of the team and address the issues in hand. **Setting milestones** for each work-stream as well as the overall project will help to keep it on track. Identifying and **managing risks** to the successful completion of the project is also key.

The governance structure for the project should be agreed by **defining accountability**. It may be appropriate to establish a steering committee or advisory board to whom the project team can report.

Evaluating the project before the team disbands it an important means of capturing what has been learned.

Strategy Skills > Managing People

Recruiting a team

> **in practice**

A team with the right mix of skills and experience will bring insights and fresh thinking to difficult strategic issues. A roughly equal mix of experts and non-experts, insiders and outsiders works well in ensuring the right balance of focused analysis and imagination.

Key issues to consider when recruiting a team include:

- team size
- team skills
- the team leader
- the recruitment process
- stakeholder engagement.

Team Size

The size of the team is important – it should be large enough to encourage a mix of backgrounds and skills but small enough for each person to be a crucial part of the team. Relatively small teams established especially for the project tend to arrive at better solutions than single individuals or large legacy teams. In a large group, people may tend to go along with popular opinion rather than thinking for themselves. In general, the larger the group of people, the harder it is for the group to work well together. Smaller numbers also make team administrative tasks easier and make it easier to develop a common purpose with mutual goals and mutual accountability.

The size and composition of the team is likely to vary over the length of the project, as different phases of work will require different levels of resources and different skills.

Team Skills

A multi-disciplinary team with the right mix of skills and experience will bring insights and fresh thinking to difficult strategic issues and will provide a secure foundation for successful policy analysis, design and implementation. Considering the appropriate split between civil servants and non-civil servants and between experts and non-experts will help to secure the right combination of knowledge and freshness. End dates of any secondments should be made as flexible as possible to allow for delays in publication or securing collective agreement to the project's recommendations. Team leaders also need to be aware of and manage demands on team members who are not full-time on the project.

Before beginning the recruitment process, a team leader may draw up job profiles to help identify the breadth of skills and experience needed in the new team which is likely to include:

- specific domain knowledge or expertise in certain subject areas
- general analytical and conceptual ability
- specialist statistical and economics skills
- decision-making skills and project management experience
- interpersonal skills
- creativity skills
- delivery experience.

The Team Leader

The role of the team leader is to lead the people and manage the resources of the team to meet the project's goals. It is the team leader's responsibility to:

- keep the purpose, goals and process meaningful through effective project management
- monitor the performance of the team
- build commitment and confidence in the team members
- manage, with support, the public face of the project e.g. media
- establish constructive links with other units, departments and with external stakeholders
- create opportunities for team members and make effective use of their skills and experience
- inspire, lead, coach and develop
- take on responsibility for producing specific pieces of work as appropriate.

The Recruitment Process

To enable the project to commence quickly, it is helpful to have identified potential candidates well before the project gets the green light. Without this, the momentum behind the project can dissipate before it has even got off the ground. One way to facilitate this is to have a database of candidates who have already passed the interview process. The team leader can then trawl through the database to identify suitable candidates to contact.

If team members are to be recruited from scratch, there is the critical question of who chooses the team. It is important that the team leader is given the final decision over this and is able to interview and reject candidates. This will avoid the awkward situation whereby the team leader is allocated team members that others are trying to get rid off - an unfortunate, but surprisingly common, scenario.

It is important to manage the workload of any internal candidates for the team, by ensuring that real time is made available and that the project will not simply add to existing workload. This can be aided by identifying the part of their current workload that will be removed.

Stakeholder Engagement

When putting together a team, it is important to consider whether **stakeholder interests** should be represented. It is desirable to bring into the team people from organisations and other government Departments with a major interest in the subject area (for example practitioners, academics and other civil servants) in order for the work to benefit from their perspective and to encourage a more inclusive process. This will also be of benefit during the subsequent implementation of recommendations arising from the project, particularly if team members are likely to be involved in implementation themselves.

Issues for consideration should include:

- Does the individual in question have specific skills or knowledge that will allow them to make a genuine contribution to the team, or could the same knowledge be gained without having them on the team?
- Will the presence of a representative from one stakeholder distort the project in any way (i.e. by making other stakeholders feel ignored, or by appearing to prejudice the outcome)?
- Is the individual available on a full or part time basis?

In many cases an individual with expert knowledge of the issues and the key institutions can be a very valuable team member, adding credibility to the overall project. But this should be carefully assessed when putting together the team structure.

Strengths

- Taking time to recruit the right time, with the optimum mix of skills, expertise and freshness is crucial to the success of the project.

Weaknesses

- The team leader is often constrained in choice of team members by budget considerations and availability of staff.

Recruiting a team

In Practice: SU GM Crops & Disability Projects

The clear lesson from both the GM Crops and Disability projects is that team recruitment needs to be an integral part of project planning. The skills, backgrounds and experiences of all the team members – especially the team leader – will play a major part in determining the success of the project and the tone / content of any outputs.

In the GM Crops project, the SU identified early on that the project team would need to be seen as objective, with no pre-conceived positions on the many controversies arising from the GM debate. For this reason, the SU deliberately recruited a team containing no experts on GM issues, recognising that there was no such thing as an expert perceived as "neutral" by all sides. However, the SU ensured that the team members contained the right set of skills and experience – economic, scientific and policy development – which would need to be brought to bear in the project.

The SU adopted a somewhat different approach in recruiting the team for the work on Disability. Drawing on an early draft of the project's terms of reference and workstream structures, a list of essential and desirable team skills was identified. This was then matched against a list of known candidates, drawn from inside and outside the SU. Where candidates possessed the right skills for the project, interviews were held, led by the team leader. Where gaps were identified in the necessary skills mix, new candidates were identified through contacts across Government and elsewhere. At all times, the overall balance of the team was of paramount importance – as was the need to include experts from inside and outside Government. Although this thorough process proved to be time-consuming (as much as 12-14 weeks from initial identification of skills to arrival of the final team member), it was essential in creating the right team for the project.

Strategy Skills > Managing People

Building a team

> **in practice**

The aim of team building is to create an environment that brings out the best in individuals and enables the team to work effectively together.

Common phases of team development

Teams often go through a number of phases during their development. There are many ways to describe these phases, but perhaps the best known are:

- forming
- storming
- norming
- performing.

These terms were developed by Bruce Tuckman in 1965 to describe how the members of small groups tend to act as the team develops. Each phase is described below.

Forming

This phase occurs when a team first comes together, or when membership changes. Sometimes this phase is called the "honeymoon" period because everyone is extremely nice to each other. Team members are usually cautious and polite with each other, while exploring their new circumstances. A good way to expedite this phase is to have "icebreaker" activities that allow team members to understand each member's capabilities and motivations. (This could be done as part of an Away-day early in the project)

Storming

During this phase, team members begin challenging and disagreeing with one another. They often jockey for position and use their expertise as weapons. Teams can get stuck in this phase and then fail. They key to moving quickly through this phase is explicitly defining the roles and responsibilities of each team member.

Norming

In this phase, team members start offering ideas and suggestions, sometimes using humour to get their points across. They reveal their preferences for performing tasks. Standards of behaviour and team processes are defined. By defining team processes, one can move on to performing.

Performing

This phase is the ideal phase for a team. They work hard and play hard together, using humour to help ease tensions. Team members anticipate problems, changes in direction and each other's moves. The focus of the team is on accomplishing their goals and not on blaming each other.

While 'storming' is a common part of team development, it is not a desirable or productive time. Your team can help shorten the storming phase by clarifying the team's purpose, defining clear performance goals and milestones, establishing roles and responsibilities and creating processes for getting the work done. Too much 'storming' is an indicator that the team's purpose is unclear or ambiguous.

Characteristics of successful teams

The following characteristics will help build a successful, cohesive team:

- Mutual Accountability. The members of the team should share a sense of mutual accountability. Team members should hold themselves and each other answerable for meeting the team's goals. All members must know what they are responsible for both individually and as a team.

- Commitment to a common purpose and goals. A common, meaningful purpose sets the tone and aspirations of the team
- Agreement on working methods and expected contributions from individual team members
- A non-hierarchical way of working
- Emphasis on job satisfaction and a friendly atmosphere
- Critical friends outside the team to give objective insights
- Sufficient flexibility in working methods and approach to accommodate different working styles
- Good communication and openness, where questions, ideas and opposing views on issues are encouraged.

Team-building events

A team building event gives everyone the opportunity to engage with the vision for the project, to think about how they will work together and to understand that everyone has different abilities that they bring to the project. There are many different tools in organisational development used to help people understand their differences. These include Belbin's team roles, Honey and Mumford's learning styles and Myers Briggs. All instruments give an insight into how it takes all kinds of people to make up a team. Your choice of instrument will depend on personal preference and training (e.g. formal accreditation is required for using Myers Briggs).

It may be helpful to use specific team-building exercises at team away-days and other team building sessions. These can assist learning about team working and project management. They can include, for example, survival, building and manufacturing exercises. Such exercises can be purchased from firms such as **Management Learning Resources** and **Verax**.

Strengths

- Very important to the success of the team, particularly when team members have not worked together before or have not worked on project teams before.
- Useful to bring together team members working on differing work-streams, to help them see the big picture.
- Can be formal or informal, ranging from professional techniques such as Myers-Briggs to team social events.

Weaknesses

- Often conducted early on in the project life-cycle but can be neglected as the project progresses and team members are engrossed in detailed analytical work.
- Use of techniques such as Myers-Briggs and professionally developed team games can be expensive.

References

Management Learning Resources Ltd, PO Box 28, Carmarthen, Wales, SA31 IDT, phone 01267 281 661, email: **sales@mlr.co.uk**

www.verax.co.uk, phone: **01252 849300** email: **info@verax.co.uk**

Building a team

In Practice: SU Energy Review

The Myers-Briggs technique was used by the team at its initial away-day. The session was run by the SU's HR Adviser who is trained in conducting the test.

All team members were requested to fill out the text prior to the away-day, and the results were collected and collated for presentation on the day. The results were quite surprising, and gave significant insight into the different personality traits within the team. The facilitator was able to give suggestions as to how team members might interact, how to deal with potential problems and when particular traits would work well together.

Strategy Skills > Managing People

Working as a team

> **in practice**

Teams work best with strong focus and purpose; clearly defined roles; and a working approach that encourages honesty and mutual support.

Working in multi-disciplinary project teams may be a new experience for many staff and it is important to ensure that all team members are familiar with the team working approach. It is important that the team leader:

- Clearly articulates the different roles and contributions of team members
- Clearly articulates the purpose and format of consultation within the team
- Acknowledges the practical demands of the project, especially for members of the team who are not full-time on the project
- Accommodates different styles
- Ensures attention is paid to individual development during the project.

Kick-off meetings

Holding a project kick-off meeting at the start of the project is a useful way of developing the team's working approach. Depending on the size and length of the project, it may also be appropriate to have kick-off meetings for each new phase of work.

Sample Kick-Off Meeting Agenda

1. Objectives of the kick-off meeting
2. What will be covered today and what will be covered at the Away-day
3. Working philosophy
   - Focus on outputs/results
   - Non-competitive, collaborative atmosphere
   - Commitment to good process
4. Team members and roles (to be further updated at the Away-day),
5. Team contact details
6. Working approach ground rules
   - Meeting norms
   - Communication norms
   - Filing and document coding
7. Review of work plan, timelines and deliverables
8. Presentation on background to project issues
9. Identifying stakeholder

Away-days

A project away-day is another useful way to get the project started, plan work-streams and encourage team building.

If possible, it is best to hold the away-day away from the office environment. This will help people switch off from day-to-day tasks and avoid the inevitable trips back to desks to check emails or phone messages. Where practical, it can be beneficial to hold the away-day in a location relevant to the project - for instance the Strategy Unit Childcare team held their away-day at a nursery.

The away-day agenda could include an ice-breaking session, a session on team member's working and learning styles and a tour of the location (if relevant). If there are team members with little specific knowledge of the subject, it may also be helpful to invite an external expert to provide an "idiot's guide" to the subject. This will ensure that all team members have at least a basic knowledge of the subject.

It is very important to organise the away-day with sufficient notice to ensure everybody attends, including project sponsor and support staff. The major objective of the away-day should be to make sure that key milestones and rules are clear to all team members by the end of the day, including:

- timelines
- key deliverables
- roles and responsibilities
- how to work together.

Following the away-day and kick-off meeting, a summary of what was covered and agreed should be circulated and followed up with one-to-one meetings if necessary. Depending on the length of the project, a further away-day at a key point later in the project may also be worthwhile.

Sample Away-day agenda

1. Tour of relevant location
2. Icebreaker activity
3. Team building exercise
4. What each member brings to the team
5. Introduction to project issues
6. Expert presentation on relevant issues
7. Structure of the project: team, timelines and deliverables
8. Review of team process issues
9. Lessons learnt from previous projects
10. Assumptions and expectations for what can be achieved through the project

Team Meetings

As well as ad-hoc discussions and workstream meetings, weekly team meetings should be held throughout the course of the project. It is important to communicate the purpose and process of every meeting and structure the meetings to ensure they are effective and worthwhile.

Regular **team meetings** involving relevant members of the core team as well as the Project Director and/or Sponsor, if appropriate, should be held. These meetings provide an opportunity to update on substantive issues, make and communicate decisions and map progress against the project plan. Meetings will also be needed to debate difficult issues and create space for creative thinking.

If the project has an Advisory Group, Advisory Group meetings needs to be managed by the team leader to ensure the Group is used effectively. Responsibility for supporting the Group needs to be assigned and meetings planned carefully and in good time.

Below are some suggested guidelines:

Set the content

- Why call the meeting? (e.g. share information, brainstorm, scheduling)
- What tangible results do you want?
- What preparation do you want? (limit this to a minimum)
- Set the agenda – people will perform better with a map

Set the process

- What kind of participation do you want? (e.g. listening, problem solving, presenting)?
- What climate do you want (e.g. time-limited, open-ended, team building)?
- What role will the team leader play?

For the team to be creative...

- Everyone must be willing to share ideas, even (especially) in raw form
- Everyone must be willing to receive ideas, and synthesise/improve them

An open communication style is an important part of this

- Such a style does not necessarily come naturally!
- Always be explicit
- Solicit feedback along the way

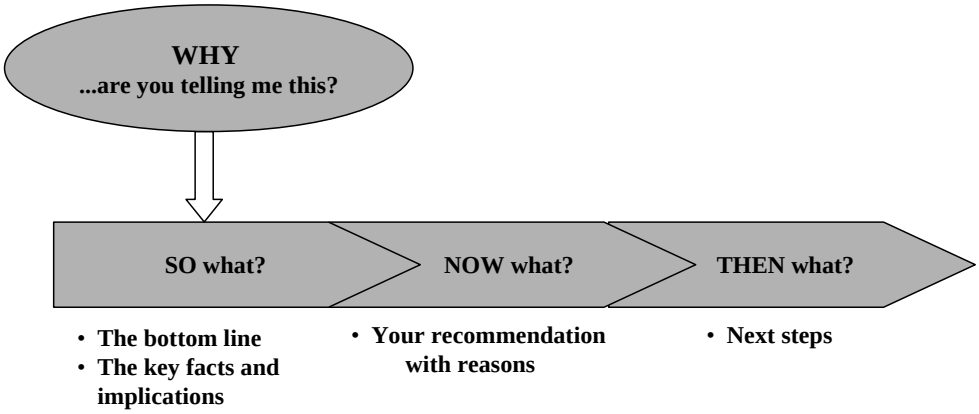
Team Communications

For a team to work efficiently, it needs a standard way of operating. The processes that a team needs to agree upon include:

- *Standards of behaviour:* Set clear rules to promote focus, openness, trust and commitment.
- *Making decisions:* As well as clear project governance arrangements, the team needs to be clear on what decisions individuals can make, what decisions the team should make and how the team will decide actions.
- *Team communication:* How will the team keep each other informed of progress? When does the team need to meet and when are other communication methods, like email, appropriate?

Team communications are as important as external communications and principles and processes should be clearly agreed early in the project. Team members should agree:

- *What to share*: Transparency alleviates anxiety. Feedback from Ministers and stakeholders and updates on meetings should be communicated to the team
- *How to share it*: keep all communications focused and efficient. Team members should be considerate in their use of group emailing (including only replying to sender rather than whole group where appropriate) and use email subject lines to indicate whether content requires action or is for information only



Team-working appraisal

A method of monitoring and appraising team-working may be found to be useful. For instance a 'team barometer' could be used to measure satisfaction with the project and approach. This involves anonymously answering a number of questions, every 3 weeks, on a scale of one to five, such as:

1. Overall, how satisfied are you with experience on the project since the last pulse check?
2. How satisfied have you been with:
   - Clarification of roles and general project progress
   - Our individual workloads
   - The work itself (interesting/challenging enough?)
   - Personal development (are you learning?)

Team leaders may feel that they work sufficiently closely with individual team members to be able to gauge satisfaction without this relatively formal approach. The option of using such a method should be discussed with the team and a decision made based on this feedback. An appraisal method can be introduced at any stage in the project, based on perceived need.

If this rather formal method is used, the team leader is obliged to act on the result. Using these sorts of formal methods can sometimes inhibit rather than create conversation as they use the medium of forms rather than dialogue. It is usually better to encourage people to take responsibility for speaking up rather than communicating through an anonymous process.

Strengths

- Agreeing norms within the team will help the team work to maximum effectiveness
- Away-days are a very good way of both promoting team bonding and ensuing buy-in from team members on the project structure and approach.

Weaknesses

- Away-days and formal team meetings can sometimes be neglected as the detailed work gets underway.

Working as a team

In Practice: SU Drugs Project

At the beginning of the project we held a kick-off meeting for all team members. This included introducing ourselves to each other and sharing our academic backgrounds, whether we had been on any previous projects and what our relevant skills were. It also included setting out our issue tree and hypothesis tree, identifying potential stakeholders and their level of interest in the project.

We held a number of additional away days during the project: either when new team members started, or at other critical points in the project – e.g. when moving from one phase of the project to another.

Regular team meetings were a vital form of communication within the team. Throughout the project a set time was allocated for a team meeting each week. We would firstly discuss the action points from last weeks meeting and then move onto discussing relevant meetings from the past week and the outcomes that arose from them. These would be discussed within the team and the follow up work allocated to particular team members. Forthcoming meetings in the week ahead were also discussed and preparation for them set. After each meeting, action points were always typed up and sent around the team.

Detailed project planning also helped to facilitate effective team working by raising people's awareness of each other's roles and responsibilities.

Another useful arrangement was a regular email update from the team leader that set out the team's priorities, what had happened in any meetings and what we needed to follow up on.

Strategy Skills > Managing People

Encouraging creativity

> **in practice**

Creative behaviour needs to be encouraged and nurtured. The team leader, or perhaps a creativity champion with the team, should actively promote a creative environment and watch out for attitudes or influences that might limit creativity. ?What If!, a creativity and innovation consultancy, have developed 'Sticky Wisdom' that defines six creative behaviours needed to stimulate the right environment for creative problem solving. These behaviours are:

Freshness

"Problems cannot be solved by thinking within the framework in which they were created" Einstein

New ideas come from new experiences.

The Thames Barrier was invented when it was realised that the valve system used in plumbing could work for a river too; the iconic design of the London Underground map was stimulated by the way wiring diagrams are displayed; and Velcro was created when its inventor noticed the way burrs stuck to his clothing.

Creativity does not necessarily have to be something completely new, but creative people have the ability to see how something could work in an alternative situation. With this end in mind, they seek wider experiences and new ways of thinking. ?What If! call this 'Freshness'. Freshness can be found in simple ways, taking a different route into work, by employing people with a range of backgrounds and skills, and by corporately-arranged visits to other organisations.

Greenhousing

"Analysis kills spontaneity. The grain once ground into flour springs and germinates no more." Henri Frederic Amiel

New ideas are delicate. Of course they have not been thought through, they're new! However, if you pounce on an idea too quickly and subject it to rigorous testing (for financial soundness, for general feasibility etc) it will soon fall down.

Once destroyed, it is unlikely to be revisited again, and even worse, the person who had the idea is unlikely to be keen to have another one**. Synectics** says:

Idea + build = 2 ideas

Idea + crush = 0 ideas

However, being analytical is the natural way to think in the Western world (see the section on **Six Thinking Hats**). Making swift and critical judgements is what drives our success. However, such behaviours are an anathema to creativity. Synectics has a list called '17 ways to murder an idea', they are:

17 Ways to Murder an Idea

1. **See it coming and quickly change the subject.**
2. **Ignore it.** Dead silence intimidates all but the most enthusiastic.
3. **Feign interest but do nothing about it.** This at least prevents the originator from taking it elsewhere.
4. **Scorn it.** "You're joking, of course." Make sure to get your comment in before the idea is fully explained.
5. **Laugh it off.** "Ho, ho ho, that's a good one Joe. You must have been awake all night thinking that up."
6. **Praise it to death.** By the time you have expounded its merits for five minutes everyone will hate it.
7. **Mention that it has never been tried before.** If the idea is genuinely original, this is certain to be true. Alternatively, say, "If the idea's so wonderful, why hasn't someone else already tried it?"
8. **Say, "Oh, we've tried that before" - even if it is not true.** Particularly effective with newcomers. It makes them realise what complete outsiders they are.
9. **Come up with a competitive idea.** This can be dangerous tactic, however, as you might still be left with an idea to follow up.
10. **Stall it** with any of the following:
    "We're not ready for it yet, but in the fullness of time."
    "I've been waiting to do that for a long time, but right now..."
    "Let's wait until the new organisation has settled down."
11. **Modify it out of existence.** This is elegant. You seem to be helping the idea along, just changing it a bit here and there. By the time the originator realises what's happening, the idea is dead.
12. **Try to chip bits off it.** If you fiddle with an idea long enough, it may fall to pieces.
13. **Make a strong personal attack on the originator.** By the time he or she has recovered, the idea won't seem so important.
14. **Appoint a committee to sit on the idea.**
    As Sir Barnett Cox observed: "A committee is a cul-de-sac down which ideas are lured, then quietly strangled."
15. **Drown it in cold water.** As in: "We haven't got the staff to do it ...the intangible risks would be too great... that's all very well in theory, but in real life…"
16. **Return it to sender** with:
    "You need to be much more specific about your proposal."
17. **If all fails, encourage the originator to look for a better idea.** Usually a discouraging quest. If he or she actually returns with one, start them looking for a better job.

© Synectics

?What If! describe the situation needed to nurture a new idea as ‘Greenhousing’. To greenhouse (protect) a new idea, we have to:

- suspend judgement and bite back criticism
- understand the world through another's eyes
- nurture ideas until they are strong enough to cope with criticism on their own

Try to put into practice the principle that every idea should be followed by two 'builds' (developing the idea further with phrases that start with "That makes me think of . . . ; To build on that idea, if we . . .; X's idea could also work if we . . . "). Language is an important part of being creative.

Realness

"What I hear I forget, what I see I remember, what I do I know." Chinese proverb

Realness is another ?What If! word for a creative behaviour. The technique is very simply and extremely effective. It demands that we stop talking about innovation and ask "how can we make it real right now?"

A recent Harvard Business Review article (Levitt T. Harvard Business Review August 2002) likened the situation to someone who talks about painting a beautiful picture, and someone who actually paints one – which person is the creative artist? Levitt felt that lots of organisations confuse brilliant talk with constructive action. The solution is to build a prototype as soon as you can (yes, this can work with policies as well as products - think of pilots). Play with it, think about it, carry it around with you improve it, tweak it, build another model and start again. ?What If! advice is - *Don't Think, Just Leap.* This links into the next creative behaviour – Momentum.

Momentum

"Half the failures in life arise from pulling in one's horse as it is leaping." Julius Hare

All really creative people have an air of urgency. An innovative leader can learn to create this state, especially with the help of a skilled facilitator who can help enthuse the people around. Working on a project that has momentum is fantastic.

There is an energy and an optimism that is infectious. There is a sense of determination to get the job done, no matter what obstacles get thrown in the way. Good managers will understand how to manage and harness this energy.

Meetings are dreadful momentum-killers; ?What If! suggest trying one of these 5 types of meeting instead:

- information only: no discussion, no debate, just the sharing of information
- decision only: no discussions, only yes or no
- stand up: stops the chatting and long winded debates
- decide at the beginning: make all the decisions first, then discuss them (cuts out unnecessary talk and focuses on real issues)
- rattle and roll: rattle through the first 8 easy and quick points. everyone feels hopeful despite the long agenda

You can also keep meetings energetic and creative by the way you plan the meeting: for example use flipcharts instead of slides; take turns to be chair; have an 'energiser' or break if energy is low.

Signalling

"The 'silly' question is the first intimation of some totally new development." Alfred North Whitehead

Signalling lets people know what you are doing and how you are thinking. It helps people align their effort (see **Six Thinking Hats**). Signalling makes the creative process explicit and legitimate and (hopefully) stops others from crushing your emerging idea (see **Greenhousing**)

The things you can say as signals include:

- How would a child look at this?
- Let's assume XYZ already does this.

- How can we try this out?
- To build on that idea. . .
- What I like about this idea is . . .
- How would we make that real right now?
- Could you draw that for me?
- Let's stop talking and just try it out
- I'm really excited about this.
- I'm just signalling that . . .
- I don't like doing this, so that's a good reason why I should.
- I'm thinking as I go along here. . .
- I have not thought this through fully yet, but . . .

Bravery

"The greatest mistake you can make in life is to be continually fearing that you will make one." Hubbard

Creative ideas are strange at first. That's what makes them creative. If they were not unusual and off-the-wall, they would already have been thought of and you would not be trying to solve this particular problem.

As a result, many creative ideas are lost because the person who had them does not say them aloud. A creative idea requires you to stand up and dare to be different.

Bravery is vital to the creative process because it enables creative people to offer the full power of their minds, and use their spontaneous connection-making skills without self-censoring ideas into mediocre acceptability. To be brave, you need to be confident that all the other creative behaviours are in place; but without bravery, none of the other behaviours are any use. Bravery is difficult, and the best advice is to just do it!

Strengths

- These behaviours will help the team work efficiently and effectively, and ensure that the contribution from each member is valued and that all ideas are developed to their full potential.

Weaknesses

- Creating a team culture that supports these behaviours will take commitment and buy-in from all team members.

References

Allan D et al (1999) *Sticky Wisdom, How to start a creative revolution at work.* **?What If!** Limited

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Synectics

Encouraging creativity

In Practice: SU Alcohol Misuse Project

Creativity techniques can be helpful not only in generating new ideas, but also in approaching existing material in fresh and innovative ways. On the Alcohol project, for example, techniques were used by the team to ensure that the narrative of the Interim Analytical Report was clear, coherent, and accessible to a non-specialist audience.

In order to crystallise the key points emerging from the report, the team set itself two exercises:

- 'Texting Tony'- where team members were required to summarise the report in writing, in the form of ten short sentences, as if they were sending a series of text messages to the Prime Minister; and
- the Lift test - where team members were required to summarise the report orally, in two minutes, as if they were giving the Prime Minister an overview of its findings in a lift journey.

The discipline of these exercises encouraged the team to isolate the headline findings emerging from their work. These headlines were subsequently used to structure the analytical report and its communications strategy.

Strategy Skills > Managing People

Giving & receiving feedback

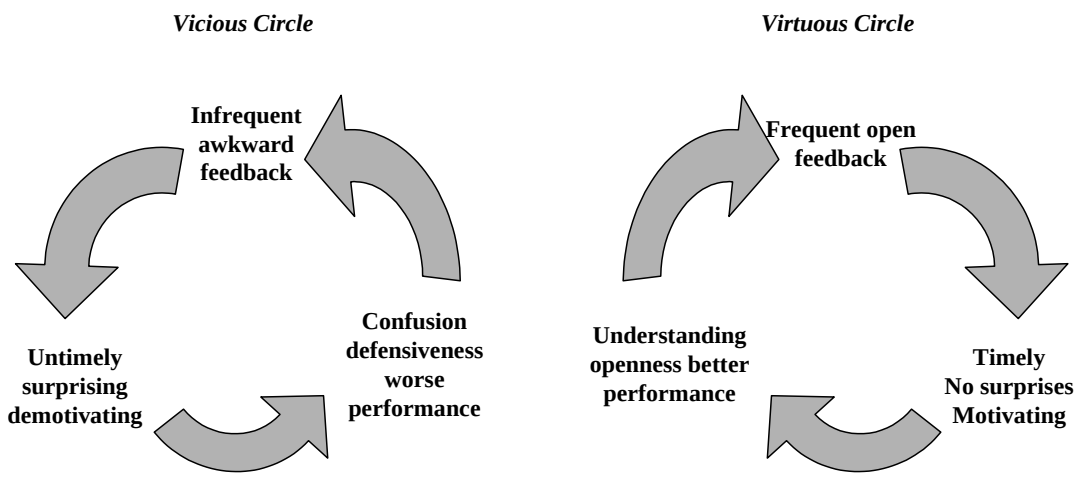
> **in practice**

The project leader should give regular feedback on performance to each team member. Feedback over the course of the project will be mainly informal but where appropriate a formal appraisal or review as part of the Department's performance appraisal process should be conducted (see the guidelines for the relevant Department. For instance, Cabinet Office guidelines can be found within the Personnel section of the CabWeb Intranet).

Feedback exists for more than contributing to formal performance and pay processes:

- The only way to increase effectiveness and productivity is by getting people involved and excited about their roles.
- A culture based on trust and relying on ideas and shared values helps win the commitment of team members oriented around a common vision.
- Leaders are more effective when they inspire performance from their team rather than when they force it.
- Two way feedback is essential, to grow both the team member and the team leader.

It is important to establish good communications patterns from the start:



There are clear differences between good and bad feedback:

	Good feedback	Bad feedback
Content	• Discusses content, process, values • Highlights positives • Highlights deficiencies with specific and tested guidelines for improvements	• Is incomplete • Ignores positives (a classic violation of psychology) • Is a witch-hunt or a blame-placing session (With no training or improvement offered; no opportunity for growth)
Direction	• Is a two-way street (hence 360 degrees	• Is one-sided • Domination by one party • No opportunity for alternative views
Process	• Is conducted in an environment befitting the goal: mutual understanding and improvement • Is not a surprise • If there is a big problem, it must be discussed beforehand	• Is hostile • Is personal • Is defensive • Contains content which is completely unexpected

Certain behaviours can help ensure feedback is valuable:

Giving Feedback	Receiving Feedback
1. Provide information intended to benefit the receiver 2. Use "I" statements - own your observations and perceptions 3. Be concise and specific 4. Describe the behaviour - avoid using labels 5. Describe the impact of the behaviour (so what?) 6. Suggest improvements 7. Ask for feedback as well as giving it	1. Make it safe for others to be honest with you by: • Welcoming the information, even if critical • Listening - not defending or justifying • Asking questions, defining the information that will be useful to you 2. Offer a summary of what you hear 3. Acknowledge agreement where appropriate; make note of questions 4. Take some time to think about what you hear - then decide how to respond 5. Offer a different view if it is constructive

It is useful to formalise the feedback process so that it can more easily feed into annual performance reviews. Capturing feedback at the time of the project will mean that it won't be forgotten or lost when the formal review process commences.

A feedback form should ask questions such as:

- Who is the provider of the feedback?
- Who is the subject of the feedback?
- In what context has the provider been working with the subject?
- What are key strengths that have been observed?
- What are key areas for development?
- Any other relevant comments?

Strengths

- Effective team management is crucial to the overall success of the project.

Weaknesses

- Can be time-consuming and is often neglected for this reason, particularly mid-project when the detailed analysis is being undertaken, often to tight deadlines.

Giving & receiving feedback

In Practice: SU Local Government Project

Informal feedback

The team leader frequently gave informal feedback to individual team members. The feedback was one-to-one, perhaps over a cup of coffee, and provided a chance to chat about recent performance. Particular importance was attached to praising good performance whenever this had been demonstrated, but the sessions also provided the opportunity of talking through areas where improvement could be made.

Team members could request informal feedback, or the team leader could initiate the brief meeting. Informal feedback was often prompted by a team member finishing a particular piece of work or stage of analysis. Informal feedback usually lasted between 5 and 20 minutes, though the final length reflected the particular circumstances of the discussion.

Formal appraisal

The team followed the required process for formal appraisal. This involved mid-year and end-of-year appraisals based on the objectives set at the beginning of the project.

The appraisals involved the team leader talking the team member through their strengths and development needs as measured against their objectives. Team members had the opportunity of discussing the feedback and asking questions. The appraisal took into account feedback from other members of the unit with knowledge of the team member's work – to get a greater understanding of their all-round performance.

Strategy Skills > Managing the Project

Developing the plan

> **in practice**

Involving team members in the development of the work plan and discussions of roles and responsibilities will help to build a good team working environment and to gain commitment. Team members can also offer new experience and insights. Holding an initial team away-day provides a good opportunity for this discussion. However, delays in recruitment may mean that this is not possible.

In order to ensure buy-in and commitment to the project, the project plan should be cleared with the sponsor, key stakeholders and, if the project has one, the Steering Group.

The project plan may take the following structure:

Example Project Plan

- Define the background to and drivers of the project
- Define the problem that the project is to address and key questions to be answered
- Set out initial analysis of available evidence. This should:
    - Identify key trends and issues
    - Identify key drivers of change
    - Identify work underway in related areas, both domestically and internationally
    - Set out thinking on possible ways ahead and methodology.
- Identify the project time scales and key milestones
- Define the individual work phases that will be required for delivery, the key milestones and outputs from each work phase. This plan should set out the activities required to achieve these outputs, and identify who will be responsible for delivery and by when
- Identify the skills needed to take the work forward and the team working arrangements
- Identify the potential risks to the successful delivery of the project
- Determine the political sensitivity and feasibility of the issue
- Identify the key stakeholders
- Determine whether and how the project is to be communicated within relevant departments and externally, and set out the reasoning for this
- Identify initial thoughts on potential implementation
- Identify the assumptions you will be making regarding the project budget
- Identify the project governance arrangements: sponsor minister and whether you will be having a project steering board and/or advisory group
- Identify project evaluation arrangements and success indicators.

The project plan should not be a static document to be placed on a shelf and ignored once the project is up and running. It should be a live document that is regularly revisited and revised.

References

For more detailed information of all aspects of programme and project management, see the **Office of Government Commerce** website, which provides information on the principles and concepts of programme and project management and provides a helpful summary of the key stages and management activities required for delivering successful outcomes. The site also covers programme and project management techniques in detail, including:

- OGC's successful delivery toolkit, which describes proven good practice for procurement, programmes, projects, risk and service management.
- An introduction to the **PRINCE2** Project Management Methodology.
- OGC's 22 Questions - From "what is our vision?" through to "what's the plan?" *22 Questions* to help you consider your project.
- Programme and Project Documentation - description of the contents of some of the commonly used documentation for planning, managing, monitoring and controlling progress on programmes and projects.

Developing the plan

In Practice: Joint SU & HO Police Reform Project

The project management plan was developed jointly by the Strategy Unit and Home Office teams over the first few weeks of the project. The plan provided the means by which the work was integrated and co-ordinated.

Several early pieces of work have informed the project plan:

- a project proposal note and agreed terms of reference for the project;
- development of issue trees to help identify key issues and logical structures for the workstreams;
- initial data gathering to draw together the dominant evidence on different crime areas and the effectiveness of the police response.

Based on the above and the Strategy Unit's project plan template, the SU team undertook a first cut for discussion with the Home Office. Several iterations were then discussed at team meetings, covering in particular the ground rules on project governance as well as the analytical approach. The basic structure developed for the plan covers:

Contents
Purpose, project aims and scope
Issues overview and proposed methodology
Issues, workstreams and related work
Governance arrangements
Stakeholder analysis, risk analysis and success
Implementation

Annexes
Issues trees
Detailed analysis of workstreams
Team member biographies

The Strategy Unit maintained responsibility for pulling drafts together, but sought specific input from the Home Office in several areas given their policy expertise and the need to draw on the ongoing programme of work in the Home Office on options for police reform. (So, for example, the Home Office led on the detail of key stakeholders, and how and when to engage with them.)

Separate brainstorms (including senior management from both sides) were held to flesh out the work programme and activity approach – linking this to the issue trees, work phasing, overall timelines, and agreeing the detail of workstream splits, activity and outputs. A high-level work programme was then drafted for inclusion in the project plan.

The draft project plan was then put to the project steering group and relevant Ministers for comment.

Strategy Skills > Managing the Project

Structuring the work

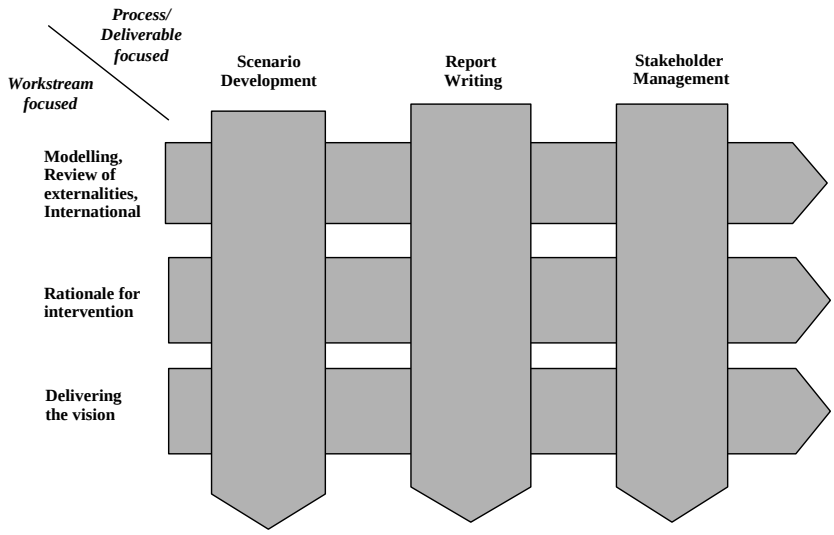
> **in practice**

As part of the overall planning process, the work should be broken down into manageable work-streams. This will enable responsibility for discrete modules of work to be delegated to individual team members. Defining work-streams and responsibilities clearly is a crucial part of project management and will ensure that all team members are aware of what is expected of them.

Workstreams and team roles should be defined early in the Justification & Set-up phase and defined in more detail as the initial analysis progresses. Developing an **issue tree** will help to identify logical workstreams.

The initial analysis needs to be mapped onto the team structure and skills base to determine who will do what and by when. Using the map of issues to be addressed, the team should identify any critical dependencies and the key phases and strands of work. A tool such as a gantt chart for each of the key phases and each of the key strands of work to be completed in these phases should be prepared. These should set out in detail the tasks to be completed (i.e. interview stakeholders A and B) rather than just using high level statements. Team members should be involved in this stage in terms of identifying the tasks to be completed for their strands of work. These workstream-specific plans should feed into the over-arching project plan.

Team members need to think more widely than their workstream 'silos'. As well as being workstream focussed, individual team members may well be working on specific 'cross-cutting' issues or processes, generating a matrix structure of responsibilities as shown below.

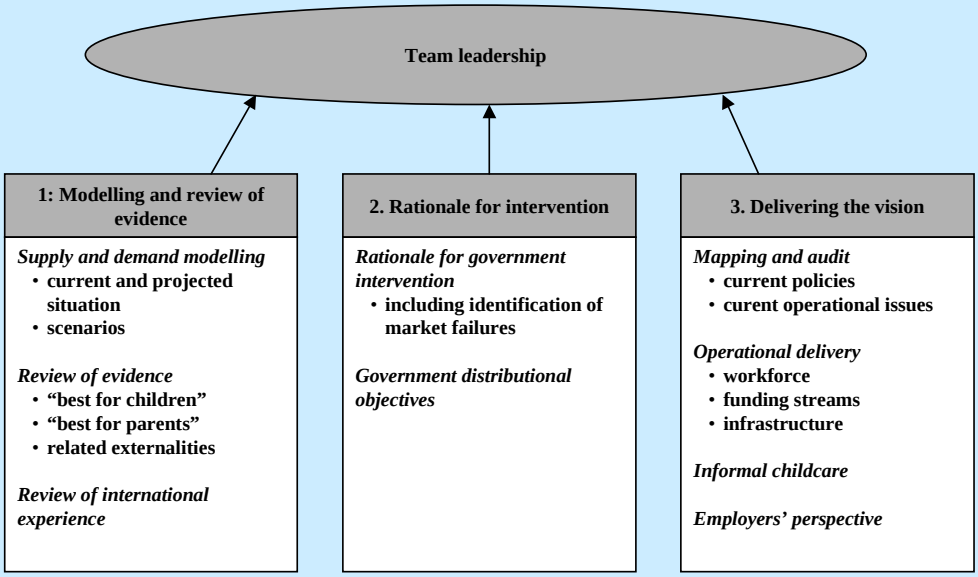


The team leader may find it helpful to use a spreadsheet to keep track of which team members are assigned to which workstreams, what their key milestones are and when they are away from the office on leave or training.

Structuring the work

In Practice: SU Childcare Project

The Strategy Unit Childcare project was broken down into 3 workstreams:



Strategy Skills > Managing the Project

Setting milestones

> **in practice**

Timelines are a necessary part of plans and milestones add transparency to a project. They represent the results of work plan action and are an excellent means of communicating expectations and helping to drive efficiency. As well as capturing milestones – milestone planning, includes:

- Presentation and team meeting dates - schedule around key stakeholders
- Parliamentary recess dates and team and stakeholder leave dates.

Timelines help the team leader identify and manage the 'critical path'. Some tips on how to do this are to:

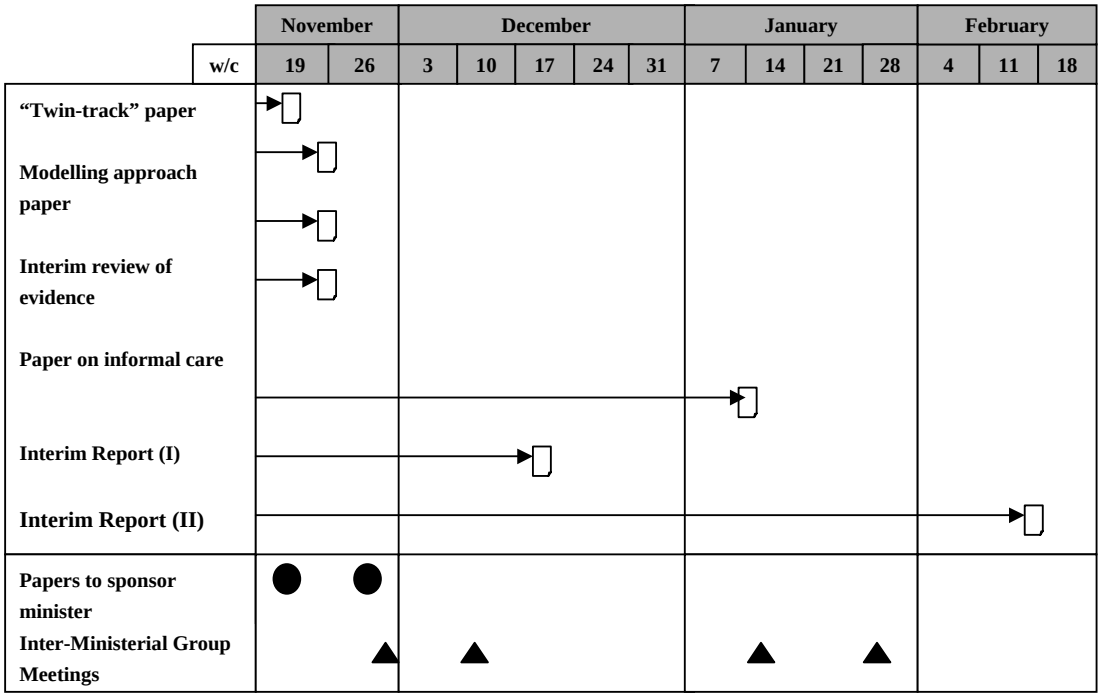
1. Identify the longest lead items - the 'critical path'
   - Start working on key data and inputs as soon as possible
   - 'Front load' effort on critical items
   - Make data requests explicit and clear - verifying understanding
   - Set and agree clear deadlines for external sources of information and escalate if the source is unresponsive

2. Work backwards from the key milestones
   - Remember your output may be on someone else's critical path
   - Think about what the next steps will be following this project

3. Attempt to fill 'white space' with productive activities
   - Produce the 'quick wins' as quickly as possible

The level of detail required in a plan will depend on the type of plan used (e.g. issue-based or calendar-based) and on the project – it's complexity, length and intensity, the experience levels within the team and the level of clarity on the issue to be addressed.

An example of a milestone plan can be seen in the diagram below:



In addition to the overall project milestone plan, It is helpful to develop workstream-specific milestone plans. This will ensure that all team members are clear as to expectations and deadlines.

Setting milestones

In Practice: SU Alcohol Misuse Project

On the Alcohol project we found it very important to make sure that everyone on the team was clear about key milestones and understood how their work fed into meeting the objectives and deadlines. We used our weekly team meeting to review the project plan and the key tasks for the coming week. This enabled us to discuss issues and circumstances that might impact on the milestones and think about how we might manage them.

In the early phase of the alcohol project we had some part-time team members. To ensure that they could contribute effectively and were kept up to date with progress towards our milestones we used a "buddying" system where a full-time team member kept in touch and updated a part-time one.

The project's milestones didn't just affect the team. It was important to involve and work with external people who could help us achieve our goals. For example, we developed a good working relationship with our Sponsor Minister's Private Office, which helped us get papers cleared by the Minister at short notice and get papers to them when the Minister was actually in the office.

We always celebrated achieving our milestones. For example, when we published our interim analysis, completed the draft report and at other important times we celebrated with a cake, a celebratory drink, a meal or simply leaving the office early for a well earned rest.

Strategy Skills > Managing the Project

Managing risks

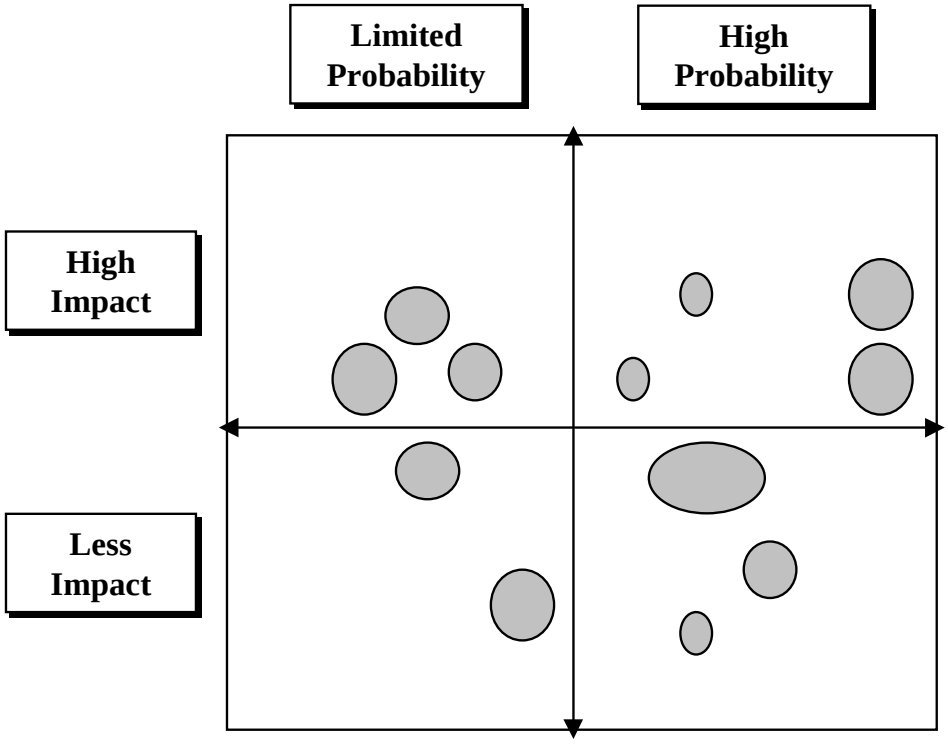
> **in practice**

The project plan should contain an analysis of risks to the project itself. There are a number of potential risks which can hamper a project including necessary changes to the project time scale, budget cuts, staff problems or shortages or, more fundamentally, that the sponsor changes his/her mind as to the objective or scope of the project.

The aim of the risk assessment is to identify and assess these threats to successful project delivery. This will enable the team to identify actions to help avoid or reduce the potential damage.

The risk assessment should identify and describe possible risks to each task identified in the project management plan. This can be done by brainstorming (perhaps at the initial project away-day) and by speaking with others who have worked on similar projects or issues.

The analysis should identify the probability of the risk occurring (High/Low) and the potential impact of the risk on project objectives (High/Low), as shown on the diagram below.



A risk log can be maintained to capture and actively manage risks to the project, and could contain:

- A unique reference for each risk identified
- A description of the risk to the project
- A description of the impact on the project should the risk materialise
- The proximity of the risk, which is an estimation of time-scale for when the risk might materialise
- The likelihood of the risk occurring. This could be a mathematical calculation, or a simpler High, Medium, Low classification

- The severity of the risk - categories for severity might be Critical (that is, adverse effect such that continuation of the project is unacceptable), Major, Significant, and Minor
- The risk owner - each risk should be assigned to an individual who is best placed to monitor it and manage any necessary actions
- The response to the risk which either reduces the probability of the risk happening or reduces the damaging effects of the risk should it happen
- The current status of the risk itself and progress of any actions relating to the management of the risk.

A risk log should be reviewed and updated regularly.

References

The **Risk Support Team** at HM Treasury are responsible for implementing the Strategy Unit report on handling risk in government and provides guidance on all aspects of risk management, including the Principles of Managing Risks to the Public.

Managing risks

In Practice: SU GM Crops Project

The SU GM Crops project formed one strand of a highly-charged and controversial dialogue around the role of GM technology in the UK. This had the two-fold impact of (1) increasing the number of risks faced by the project, and (2) raising the stakes in the event of things going wrong. In this context, active management of risks was essential.

The team worked together to identify risks and to assign to them both impacts and probabilities. The possible consequences of each risk were identified, and responsibility for preventative actions assigned to specific team members. Risks varied from the relatively prosaic – e.g. team members leaving part-way through the project (which happened twice in this instance) – to the much more dramatic – e.g. the US bringing a case against the EU under the WTO, in respect of policy on GM (which happened towards the end of the project).

Many of the risks identified in the risk register came to pass during the project. The fact that the team had already thought about these risks undoubtedly made them easier to deal with, although the use of a risk register in itself was not a panacea. For example:

- In several cases the team's assessment of impact or probability proved inaccurate. For example, the early departure of team members was classed as medium / high impact but only medium probability – in the event, two team members left early, but the impact if anything was positive, because it enabled different skills to be brought into the project at different stages.
- Even where risks were identified, it was not always possible to mitigate against them or to deal effectively with the consequences. For example, the availability of good data from the parallel Science Review was identified early on as a key risk. But despite best efforts from the SU and the Science Review team, the timing of the two strands restricted the opportunities for data-sharing.
- Some risks were missed completely – partly because the team did not keep the risk register fully up to date. For example, the team failed to identify and prepare for the impact of a reshuffle of Ministers on the governance of the project.

Overall, however, the use of active risk management techniques enabled the team to steer a successful course through a potential minefield, relatively unscathed.

Strategy Skills > Managing the Project

Defining accountability

> **in practice**

As the project is planned it is important to determine the appropriate governance structures. This should include identifying a sponsor Minister and whether it is appropriate to establish a Steering Group.

Where possible, it is a great advantage to identify a Minister who will be the project's sponsor. This will help to gain senior buy-in to the project from the outset, and also provide someone to consult about the political feasibility of emerging conclusions and recommendations.

It can also be very useful to have a project Steering Group. The traditional role of the Steering Group is to provide a steer and take decisions at key stages in the project. Members should include key project stakeholders and may include external stakeholders, if appropriate. The key to a successful Steering Group is getting the balance right between breadth and depth of experience.

There are also other roles for a Steering Group:

- Advice on content
- Stakeholder buy-in
- External discipline for the team.

These roles may not be fulfilled by a single group. Content work in some cases is best done separately, for example through expert panels, bilateral sessions with stakeholders etc.

It is generally advisable to have 3-4 meetings of the Steering Group during the life of the project. The objective of each meeting is to provide an update on project progress and to seek advice and consensus at key decision points. In practice, this means that there is likely to be a meeting at the end of each phase of the project, to discuss project outputs. For example, during the Justification & Set-up phase of the project, the Steering Group should agree the project plan. Steering Group Meetings should be factored into the project plan, as key milestones. It takes a lot of work to prepare for these meetings, so holding more than 3 or 4 could mean that servicing the Steering Group could become overly burdensome.

In addition or as an alternative to the Steering Group, it may be useful to have an Expert Advisory Group. This is a small group of industry, sector or issue experts who are used to providing technical input and advice, and can act as a sounding board and reality check on emerging conclusions. It is advisable to establish the Group early in the project as it can take stakeholders some time to identify the most appropriate representatives. The Advisory Group can also feed into the development of the project approach if they are involved early in the process.

Defining accountability

In Practice: An SU Project

Our project was accountable to at least three types of oversight groups.

A ministerial steering group was essential for the high-profile and sensitive issues such as the one with which we were engaged. With a senior cabinet minister as sponsor minister, we were able to open doors, challenge sacred cows and had a natural champion for a bold new agenda.

We took this steering group through our thinking step-by-step so that they could reach the same conclusions as the project team. They provided some valuable political guidance on what would and what would not fly. Inevitably, pressure on their time meant we could only meet once every two or three months so we made sure we got the maximum value and clearest possible steer from those meetings.

In between those meetings, a senior officials group provided more hands-on guidance in overseeing the direction of work. They met every 2-6 weeks at different stages in the project. As they had a wider portfolio of responsibilities, their main function will be to help the team distinguish between 'wood' and 'trees'. We found it is very easy for full-time team members to get overly absorbed in detailed issues and lose sight of wider issues.

Finally, we convened a number of ad hoc expert advisory groups. They were useful in providing an external reality check on our emerging conclusions. The non-governmental participants ensured that our thinking was not too Whitehall-centric and helped us to identify best-practice elsewhere and leading-edge thinking in the academic research community. This had the added benefit of ensuring that we had credibility with a wider group of stakeholders when we were ready to announce new initiatives.

Strategy Skills > Managing the Project

Evaluating the project

> **in practice**

This exercise, involving all team members, should be conducted at the end of the project to evaluate whether the project met its objectives and identify key lessons learned. It is important to:

- have a meeting to do this explicitly. Make this a formal post-case review and audit session.
- use the session to assess content and process learning
- make sure everybody is present.

Possible Agenda:

Agenda Items	Purpose
Project evaluation	To debate satisfaction with outcome and process of the project
Lessons learned	Top insights Key process learnings
Stakeholder and relationship development	Identify/prioritise opportunities for further developing relationship - Who and how - Timeline definition
Plan knowledge capture	Satisfaction of material for Knowledge Management
Team discussion on support staff performance	Provide team feedback and evaluation

Key aspects to cover are

1. what went well
2. what went less well, and
3. lessons for future projects or pieces of work.

Some of the issues the discussion should cover are:

- How well was the study specified?
- How convincing was the analysis?
- How effective were the working methods?
- What impact has the work had?
- What was media coverage of the work like?
- How should the results of the evaluation be disseminated?

- Is there a mechanism in place to ensure follow up and implementation of the report's recommendations?
- What was the value of the work for the key stakeholders?
- How was the project managed?
- Did you get the work/life balance right?

In order to make sure that the lessons are taken on board for future projects, it can be useful to present the outcomes to senior management or other projects teams.

Why Projects Fail?

- Failure to agree the key question or issue
- Planning is carried out superficially
- Eye off the ball
- People aspects are not well managed
- Risks are not properly addressed and insufficient contingencies are allow
- It is difficult to make tough decisions
- Lack of authority
- Lack of commitment

Evaluating the project

In Practice: SU Workforce Development Project

At the end of the project the team arranged an extended lunch to discuss lessons learned. Prior to the lunch, the facilitator drew a timeline of the project on a white board in the team's room. The team (anonymously) marked their high and low points in different colours on a timeline of the project. This encouraged the team to think about the lessons to be learned from the project as a whole and not just the end game. This was used to produce slides to stimulate discussion at the lunch. That **discussion considered a wide range of issues**. Following the lunch, a team member prepared a presentation summarising the discussion. This was presented first to the senior managers and then to an all-staff meeting.

Strategy Skills > Managing Stakeholders & Communications

Tools & Approaches

Stakeholders

- Identifying key stakeholders and their issues
- Effectively engaging with stakeholders
- Developing a stakeholder engagement plan

Communications

- Drawing up a communications plan
- Communication with the media
- Evaluating communications
- Preparing presentations

Managing Stakeholders

Strategy work conducted in isolation from those that it will impact is unlikely to deliver any benefit. It is therefore essential that strategy is developed with implementation in mind at all times. The team should pay great attention to managing relationships and communicating with those outside the team who have an interest in the project's outcome.

Stakeholders are the individuals and groups affected by and capable of influencing the development and implementation of strategy and policy proposals. **Identifying key stakeholders and their issues** is therefore a very valuable exercise that should be conducted as early on in the project as possible.

Stakeholders, including the public and frontline staff, can make an extremely valuable contribution to the success of a project. **Effectively engaging with stakeholders** is key to motivating them and obtaining their commitment, and should be done through contact and involvement throughout the project - engagement from early on in the project lifecycle should help to reduce the risk of any surprises later on. **Developing a stakeholder engagement plan** is a useful way of planning how to effectively engage with each stakeholder.

Managing Communications

The importance of communicating effectively with those outside the team is clear. Successful communication is about sharing the right information, at the right time, with the right audience. **Drawing up a communications plan** helps to structure how to go about this in the most effective and efficient way.

Communication with the media, who have significant influence over public opinion, is key to ensuring favourable coverage of the project.

Once the message has been agreed and communicated to the audience, it is important to go through a process of **evaluating communications** for their effectiveness. Communications planning must begin on day one of a project and continue until the project has been completed. Evaluation will help the plan to keep evolving through each stage of the project.

Direct communication with stakeholders often takes the form of a presentation. **Preparing presentations** to a high standard and tailoring them to the audience is crucial to getting the message across.

Strategy Skills > Managing Stakeholders

Identifying key stakeholders and their issues

> **in practice**

Identifying stakeholders – those affected by and capable of influencing strategy - and their issues is necessary in order to understand the range of interests that need to be considered in developing and implementing strategy and policy proposals.

Different stakeholders can perceive the same project and proposals in quite different ways depending on their vested interests, their particular priorities at the time and their experiences of the organisation or people leading the work. Indeed, the concerns and objectives of different stakeholders and stakeholder groups are frequently in conflict.

The list of stakeholders for any government strategy work is likely to be long and include:

- Users and customers
- The departmental or lead Minister (if there is one) and their specialist adviser
- Ministers in relevant other government departments (OGDs) and their specialist advisers
- Groups of officials and individuals in the relevant OGDs
- The Number 10 Policy Unit
- Devolved administrations
- Representative organisations from the relevant sectors
- Local authorities and the wider public sector
- Private sector organisations and individuals who have a current or potential future vested interest in an area (for example, if they might be involved in future delivery)
- Parliamentary Committees
- Academics, research organisations and think tanks
- Employers and trade unions
- International organisations such as the EC, World Bank, IMF or UN

A brainstorming session during a team meeting devoted to stakeholder identification is an effective means of capturing the list of all the likely stakeholders. It is useful to keep a record of identified stakeholders and their contact details.

In addition, in order to manage stakeholders effectively it is important to understand the needs and interests of each, including:

- their goals
- past reactions
- expected behaviour
- the likely impact the project will have on them (positive or negative)
- their likely reaction
- the extent of buy-in and level of support.

It may be useful to meet with some of the stakeholders to establish the nature of their interest and any concerns they may have about the project.

Identifying key stakeholders and their issues

In Practice: SU Fisheries Project

Before the Fisheries project was launched the team thought about how to identify and engage stakeholders with the project.

Member of the team seconded from fisheries departments were able to identify key stakeholders and groups of stakeholders and developed a contacts database as a central record of their details.

The process of engaging with stakeholders and understanding their issues was designed to include a number of elements:

- a tour of UK fishing ports
- a written consultation process
- a stakeholder event
- the formation of a number of working groups to support the work of the team.

It was planned as an open, transparent process employing formal and informal contacts and a mixture of standard and original tools for structuring the interaction with stakeholders. Where possible, material was published on the Strategy Unit website to allow interested parties to follow the work of the team.

Once the project was launched, team members embarked on a tour of UK fishing ports to talk to people involved in the industry. These meetings were opportunities to gather data and get an understanding of the issues as identified by people closest to them. The personal connections made in these meetings meant that the project was viewed positively by key stakeholders and allowed for follow-up contact to request information and test ideas.

Strategy Skills > Managing Stakeholders

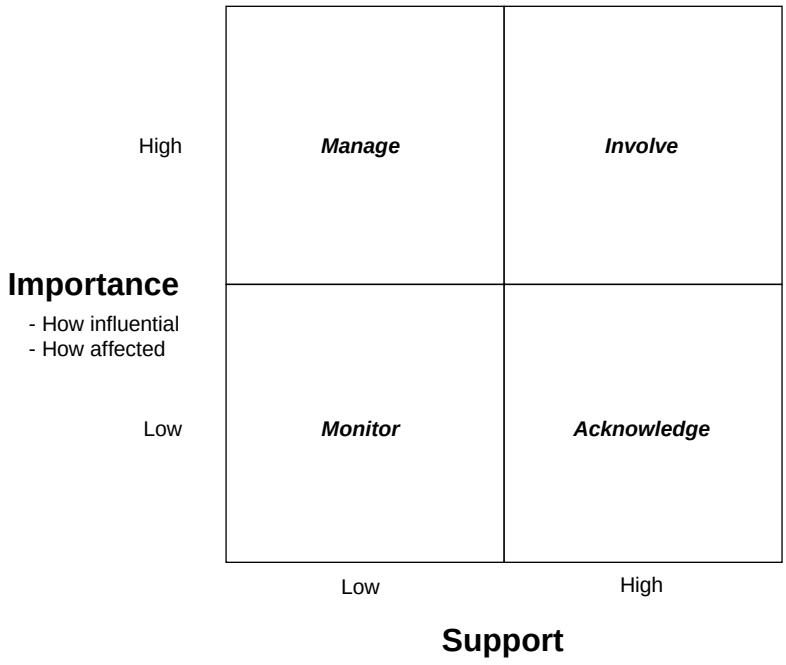
Effectively engaging with stakeholders

> **in practice**
> **template**

Having identified all the stakeholders and their issues, the team will need to decide how they will prioritise their efforts between them and how they will most effectively engage with them.

Prioritising effort

In order to prioritise the team's efforts it is necessary to identify the most important, or key stakeholders – i.e. those who are *most* affected by or *most* capable of influencing the strategy and its implementation. Combining this with an understanding of how supportive each stakeholder is likely to be will then enable the team to differentiate their approach to engaging with them. A simple matrix can help in this process:



- Stakeholders who are highly supportive and highly important should be closely involved with the work of the team.
- Stakeholders who are highly important but not supportive need to be closely managed with the aim of increasing their level of support. To do this, it is helpful to determine the benefits that the project can offer to them, and identify how those benefits can be sold to the stakeholder.
- Stakeholders who are supportive but of little importance could provide a distraction and should be acknowledged but then managed accordingly.
- Stakeholders who are neither supportive nor important should be monitored to ensure that their level of importance does not change, but otherwise should not distract the team.

It may be helpful to plot the matrix twice – once considering the degree of influence of each stakeholder, and once considering the degree to which each stakeholders is affected by the strategy. The first matrix will inform the process of achieving political buy-in, and the second will help focus the team on serving the true customers of the strategy.

Engaging with stakeholders

Having identified those stakeholders that will be most closely involved with the project, it is necessary to identify how best to engage with them throughout the various stages of the project.

The key elements of a positive stakeholder relationship include:

- Early agreement of the need to work together to deliver results
- Meetings to establish project parameters, success criteria and potential constraints or barriers
- Review and agreement of key issues
- Early flagging of problems
- Constant updates on progress.

The table below identifies some of the steps to stakeholder engagement throughout 4 phases of the strategy process.

Phase	Key Stakeholder Management Tasks
Justification & Set Up	• Agree objectives and questions to be answered • Determine process for consultation • Discussion of broad issues
Research & Analysis	• Identify key concerns/issues and collect knowledge • Communicate emerging conclusions
Strategic Direction Setting	• Seek views as to emerging strategic options • Communicate chosen option
Policy and Delivery Design	• Consult on policy design, especially those responsible for implementation • Secure collective agreement if required

There are a number of approaches to engaging with stakeholders, including:

- One to one meetings (usually required on regular basis with influential stakeholders)
- Inviting stakeholders to sit on Steering, Advisory or Working Groups
- Presentations to staff/senior management teams/boards
- Recruiting team members from stakeholder organisations
- Joint working with stakeholder organisations on key issues
- Conducting a public consultation exercise and preparing an interim report for publication
- Seminars for broader debate of particular issues or topics
- Written communications, for example in the form of newsletters, updates or drafts of papers
- E-mails
- Web sites posting up key papers
- **Focus groups** and seminars - for example, these might be a useful way of involving members of a sector, representative organisations and users.

Different approaches are likely to be appropriate for different stakeholders. A combination of approaches is likely to be most effective, especially for key stakeholders.

Effectively engaging with stakeholders

In Practice 1: SU GM Crops Project

The GM crops project learned some tough lessons in stakeholder engagement. Despite the team having drawn up a stakeholder management plan, the initial scoping document - heavily reliant on internal work and comments from other government departments - was widely and severely criticised by many external stakeholder groups.

In response to the criticism, the GM crops team opted for a much more extensive level of stakeholder engagement. All interim papers (including the criticisms of the scoping note) were published, and the team arranged stakeholder seminars to design the scenarios for the project and to draw up some illustrative "shocks and surprises". Repeat meetings with key stakeholders were organised, and many key stakeholders were involved in “Expert Groups” which had the opportunity to provide input to work in progress. A long list of contacts was kept informed of key developments in the project, and at the end of the project, a post-publication event provided stakeholders with an opportunity to comment on the report and the methodology.

Whilst most stakeholders were interested mainly in the content of the report, the degree of engagement in the process was widely welcomed. NGOs in particular appreciated the feeling of being used as a source of valuable information, rather than just another group to tick off a list. The ability of the team to respond and re-plan in the light of criticisms was also seen as positive. Overall, the project achieved a surprising degree of consensus, with most groups feeling that their viewpoint had been listened to and reflected in the report.

Effectively engaging with stakeholders

In Practice 2: SU Fisheries Project

The Fisheries Project set up two bodies to mediate formal contact with external stakeholders. The team invited a ‘Red Team’ of fishing industry experts to act as critical friends of the project. They provided constructive criticism of the team’s thinking at key stages of the project. In addition, the Stakeholder Advisory Group brought together representatives from all sectors of the fishing industry along with environmentalists and other stakeholders. Two meetings were held during the course of the project. These were structured to allow the team to communicate key findings and for the Stakeholder Advisory Group to input to the team’s work.

The consultation paper, launched after the first couple of months of analysis, had several purposes. It provided an opportunity for gathering data that could not be found by other means. It gave individual stakeholders and organisations the opportunity to feed into the team’s work through a formal process. It also provided the team with the opportunity to present some of the initial analysis in a form that challenged preconceived notions and asked some searching questions. This was useful in preparing the ground for consideration of reform of the fisheries sector.

The team also held a Stakeholder Event after the bulk of the analysis had been done. The team invited over sixty stakeholders; people met during the course of the project and a number of respondents to the consultation exercise. The Stakeholder Event allowed the team to ‘truth test’ its findings with a cross-section of stakeholders, continue the process of challenging received wisdom and provide stakeholders with ‘early warning’ of the likely terrain of the final report. The Stakeholder Event used outside facilitation and innovative technology to allow structured participation from attendees. This meant that all participants were able to comment on the team’s work.

The use of a mixture of conventional and innovative tools for stakeholder engagement, combined with a commitment to transparency, encouraged constructive engagement and allowed the team to access resources and knowledge that were invaluable to gaining an understanding of a highly complex field.

Strategy Skills > Managing Stakeholders

Developing a stakeholder engagement plan

> **template**

The process of identifying stakeholders, their issues and how the team will engage with each should occur early on in the project, and the results should be documented in a stakeholder engagement plan. The plan should specify the intended approach to engaging with stakeholders throughout the four stages of the project. It should be integrated with the overall project plan, and include details of:

- the proposed actions
- the proposed timing of those actions
- the team members responsible for each engagement.

For example, the plan might include the timing and proposed aim of meetings with individuals or working groups and the proposed dates and nature of particular communications. This **stakeholder engagement plan** template may provide a useful start.

The stakeholder management plan should be a living document that is referred to on a regular basis, and updated according to developments during the project. At key points during the project it is also advisable to update the stakeholder assessment as positions do change and this will require the stakeholder management plan to be revised accordingly.

Developing and regularly revisiting the plan is a time consuming process, and as such often neglected. However, it will be extremely beneficial to the final outcome of the project if key stakeholders are bought into the process and are willing to implement the strategy.

Strengths

- Drawing together a clear plan for stakeholder engagement is crucial to the success of the project. It will help ensure buy-in to the strategy, and will also help secure commitment to implementation.

Weaknesses

- It can be a very time-consuming exercise, however, which can be neglected given the pressures to undertake analytical work etc.

Strategy Skills > Managing Communications

Drawing up a communications plan

> **in practice**

A communication plan should set out the team's approach to handling both stakeholders and the media at all stages of the strategy development process. This includes the formal launch, the consultation process, the presentation of analysis to stakeholders, the publication of the interim report, the communication of the conclusions and the publication of the final report.

The plan should clearly identify activities, responsibilities and time scales.

If there is to be a formal launch of the project to the public, the plan should be developed with assistance from the relevant departmental Press Office team. In most cases, it is best if any media queries are directed to the Press Office for follow-up.

After each phase of the project, communications should be **evaluated** to monitor success and identify any learning points.

Questions to Answer

Some of the key questions to cover in drawing up the communications plan are:

1. Objectives: What is the main business objective this communications strategy needs to support (the main change(s) you are trying to achieve)?

2. Audience: What are the main audience groups that:
- Can make a difference to the change happening (or not)?
- Are affected by the change?

If there are more than five in this list, which are the really key ones (that can *really* make a difference to whether the objective happens)?

3. State of opinions and knowledge. What are their:
- Attitudes (how do they feel?)
- Opinions (what do they believe?)
- Information gaps (what do they know?)

Are they correct?
- Do they have enough information to make the right decision? (Is it just that they don't believe the information they get?)
- How do they influence others?

4. Messages: If you could change any of these opinions (or fill the information gap) which ones would you prioritise? (Is this achievable?) Therefore what messages or information needs to be continually highlighted to the main groups?

5. Methods:
- What is the best method of getting to the audience group?
- Who influences them?
- What do they read?
- Who do they speak to? Who do they believe?

- What channels do we know don't work?

6. Timing:
   - How long will it take to change these opinions?
   - Are there logical opportunities on the calendar we can exploit?
   - When should we start?
   - When must we have achieved this attitude shift by?

7. Plan: Using this information, what are you going to do, for whom and how?

8. Evaluation: How will we know if we have changed their opinion?

The answer to many of these questions may be clear. For others, it may be necessary to conduct research.

In drawing up your communication plan the team should consult their departmental press office for any guidance they have produced on communication. Specialist advice for public sector organisations is also available from **COI Communications.**

Drawing up a communications plan

In Practice: SU Voluntary Sector Review

The Strategy Unit's report "Private action, public benefit", had a very diverse range of stakeholders across wider Government, the voluntary sector, education, savings bodies, sport and social clubs, and even housing associations.

The wide media interest ranged from national media to specialist magazines covering the various sectors.

The overall communications strategy for this project needed to address stakeholders' needs from its launch to publication of the final report.

Communications techniques allowed us to identify key stakeholders who were kept regularly updated on progress and consulted on key areas during the lifetime of the project. This included the press officer being able to update media on progress and explain reasons why the project was taking longer than originally expected – thus keeping criticism to a minimum.

Some key points to note:

1. Detailed briefing notes are vital for any launch. The Q and A must be exhaustive and must address sensitive issues.

2. The launch strategy included a large number of briefing sessions to cover stakeholders and the media. This was extremely time-consuming but effective.

3. Briefing small groups of the media helped to improve their understanding of the report – especially for non-specialist media - and resulted in measured and accurate reporting of the key recommendations. It also allowed specialist media more opportunity to delve into their areas of interest.

4. The concentrated briefing of stakeholders also resulted in much more informed initial comment from them than might otherwise have been the case.

5. This model has been followed with other SU reports and tend to show that the investment of time in preparing briefing notes and with stakeholders and the media is returned in better understanding and much more informed comment.

6. However, this model is not always possible when Ministers are involved in the launch process. The time needed tends to make it impractical.

7. Do not forget to plan for the dissemination stage post-launch. Activity should not stop the day after launch.

An overall communications strategy was produced for the final report's launch. We have left the actual text in place in the template wherever it is appropriate.

Strategy Skills > Managing Communications

Communication with the media

> **in practice**

The media is the means by which many stakeholders will be influenced and informed about the project. Hostile media coverage can seriously damage the project and lead to options being closed by important stakeholders without any informed discussion or consideration.

Except in exceptional cases, it is always better to engage with the media as perceived secrecy will only increases their interest. News is what is different – the project's view of issues are informed and detailed in a way that the media will not usually have access to.

The team should always work with and through the Communications Group and Press Office rather than dealing with the media directly. When communicating with the media it is important to remember:

- Keep it simple and ensure that the story is clear. News has no grey areas: It's a 'success' or a 'failure', it's 'big' or little', 'yes' or 'no', 'right' or 'wrong'; journalists rarely have the time to deal with detail.
- Be as open as possible, secrecy adds interest and value to a story.
- Be fully briefed and know the facts.
- Avoid the void: If you don't provide some information, someone else will.
- Create a Q&A brief to cover areas that the media will be interested in.
- Don't be tempted just to answer the easy questions or cover the areas they '*should* to be interested in'. Test the answers to ensure that they robust.
- Consider whether a press briefing or conference is required and whether there are any key stakeholders that the media will automatically contact. If so consider briefing them in advance.

Communication with the media

In Practice: An SU Project

When our project became news many team members were surprised by the ability of even ""serious" newspapers to get the issues wrong. This presented a delicate trade-off: should we seek to correct misrepresentation and risk inflaming the debate; or should we sit tight and let the story blow over?

We received some helpful advice from the media professionals in the press office and others who were able to advise on the political dimension. The golden rules are 1) don't panic; 2) have a media strategy and 3) stick to it.

That said, being in the eye of media storm was certainly unnerving. Journalists have a pack mentality and will pursue and develop stories first picked up by their rivals. This is particularly true on 'hot button' issues that translate into strong headlines.

Damage limitation is crucial. In the first instance, we had to ensure that we knew the facts ourselves with as much certainty as possible. Second, we checked that key stakeholders inside and outside government also knew the true position. Many had already been contacted by the media and had been rushed into commenting on what was at best a partial picture of the situation.

We set out to provide a clear long-term vision and a more immediate agenda. This is where good strategy comes in. A compelling narrative backed up by clear evidence, helped to show that government was on top of the problem and had a coherent view on how our issue will be addressed in the future. This might be less interesting to some journalists, but makes for better public policy.

Strategy Skills > Managing Communications

Evaluating communications

Communications should be evaluated after each phase. A number of formal tools and 'off the shelf' solutions are available as well as specialist companies offering media analysis and evaluation. Although independent analysis is best, these options are expensive and usually beyond the budget of projects.

There are informal techniques that can be used to test the effectiveness of communications. Most depend on having identified key messages and target media in advance. (The intended message must be explicitly articulated before it is possible to evaluate whether anyone else understood it, or whether the message got through).

A crude but effective form of media evaluation involves checking how many of the key **messages** were covered correctly in the stories that were published (for example, a story could score four out of five, or 80%).

However, this can be skewed because it takes no account of where the story was published (e.g. national tabloid, broadsheet or trade journal) and its **prominence** (front page, page 2 etc, column inches). So there needs to be a balancing factor. This could be through ranking the publication by its appropriateness to target audiences. The scale needs to be large enough to show up a difference. It is usually sufficient to grade publications on a scale of 1-10. As an example, this could be:

10 = prominent story in national broadsheet or tabloid
6 = prominent story in an important specialist publication
4 = prominent story in a major regional
2 = story in non-target publication

A further factor is **tone** – whether the story is positive or negative. For example a story may contain all the key messages, be in a prominent position in the target media but be fiercely opposed to the policies. The message has got through but not the argument.

Again this needs a wide enough scale to reflect nuances of tone in the coverage. It is best to use a + /- scale that is centred at 0 for neutral coverage. For example:

+ 5 = a highly positive story
0 = a balanced story
- 5 = a highly negative story.

An overall score can be assigned using the formula:

Score = (Message + Prominence) x Tone

Users of this self-assessment tool usually tend to over-rate the negative and under-rate the positive. But while this system is crude it does give a useful pointer to how well the messages are getting through.

Strengths

- Ensures messages are understood clearly by users.

Weaknesses

- Can be time-consuming but should not be neglected.

Strategy Skills > Managing Communications

Preparing presentations

> **in practice**

Most projects will at some point require a presentation to be given to key stakeholders and other interested parties. These presentations are often a crucial part of the project, and their outcome can significantly impact the success of the work. The team stands a much greater chance of making a successful presentation - generating enthusiasm and commitment from stakeholders, if they present their analysis clearly and logically, with a compelling narrative. *Storyboarding* is a tool to help achieve this.

What is Storyboarding?

The storyboard is a tool originally developed in the film industry, and consists of a series of visual images that simply and briefly illustrate the film's key scenes and events. As with many 'buzzword' terms, storyboarding has been used and misused in a variety of contexts other than filmmaking. Applied to projects and presentations, the most important parallels are as a means to sketch the flow of the narrative at the very early stages, seeking the most coherent way to link its component parts. By having a clear idea of the best way to construct the narrative, significant savings are made in work at the later stages, avoiding the need to change the structure once the slides have a lot of detail on them and are integrated more tightly. Secondly, having a clear narrative through the presentation will help avoid the tendency to present 'facts, facts, facts', which is likely to make the presentation tedious for the audience.

Initial Questions to Ask

Before preparing a storyboard, there are a number of basic questions that need to be answered:

- **What do you want to achieve from the presentation?** Are you planning to update the audience on general progress, or do you want to engage them in a discussion of particular issues? Are there specific decisions that you need them to make?
- **Who is your audience?** The way you prepare your narrative will differ depending on whether you are presenting to an expert group, or a group who has never engaged with the issues before. Do you know if they want to hear a detailed analysis, or high-level conclusions?
- **How long do you have to make the presentation?** It usually takes longer than you expect to present, particularly if the audience ask questions (which they should, if they are engaged with your work). Establish how long you will have to present (leaving time for questions) and from there, work out how many slides you can use. As a rule of thumb, it takes three minutes to present a basic slide with three or four points to explain. More complex slides will of course take longer to explain. The longer the presentation, the greater the need for clarity.
- **In what format are you going to present?** With a small group it is easy to print out paper copies of your slides, with multiple slides on each page. This has the advantage of avoiding the need to organise a projector and laptop (as well as inopportune technical glitches!) and allows your audience to make notes more effectively. However, with printouts people can try and race ahead in the presentation, not being able to focus on your commentary at the same time. How much do you trust your audience, do they want to listen? With larger groups, providing individual printouts may not be possible, but nevertheless a projector has the advantage of being a single focal point for the room where you can more precisely control the flow of the narrative. Furthermore, it can act as a covert *aide memoire* in longer presentations for the narrator.

Preparing the Story

Once you have a good idea of the right length, tone and format for your presentation, you can start to design your 'story'. As with the standard dictum that governs speeches, tell them what you are going to say, say it, and then tell them what you have said. Secondly, don't simply read out the contents of your slides! Use them as the bulwark with which to fortify your commentary. The surest recipe for confusion is to be talking about a different point to the one on the projector or the hand-out. Where one slide covers four points, consider revealing them one by one as you talk though them. Remember that you want your audience to:

- Absorb what you are saying quickly and easily – so have the body of the slide fit tightly with the title or 'strap-line'. Try to keep your slides uncluttered, with no more than four points on each with a common convention for font sizes and styles and element positions.
- Have confidence in the validity of the material – cite your analytical sources
- Be clear on the recommended path of action – provide a conclusion that encapsulates your central message.

You can be more confident of meeting your audience's needs if you can answer the following questions:

- What is the subject I am considering?
- What is the central question in my audience's mind about that subject?
- What is my answer to that central question?

Frequently, the agenda of the presenter and his audience may be slightly different. For example, a presentation to the Treasury that tries to convey the innovative nature of your policy recommendation might be lost amidst their concerns regarding its cost-effectiveness. Communications with stakeholders before the presentation often give an indication of their concerns If they are not explicit, and if you don't know them before the presentation, try and pick them up as you go through rather than ignoring them.

Knowing the central question in your audience's mind is central to generating an engaging narrative. A common approach is to use a 'pyramid' structure for your presentation. The pyramid should start with a single overall summary slide, on which you sum up the key elements of your story, and the answer to the central question that you believe will be in your audience's mind. Behind the summary slide are more detailed sections, each of which also starts with a slide summarising the section. Inside each section is the detailed analysis and arguments to support the main conclusions.

Using this pyramid approach creates a strong presentation with clear conclusions extracted out of the body of detail, and grounded in a sound logical basis. Where presentation time is short, and you are not sure which of the slides the audience will want clarification on, a useful trick is to include 'hidden' slides in the presentation which can be shown later in support of a particular slide if it is questioned (in PowerPoint, go to Slide-show ® Hide Slide).

Before writing any slides, sketch out the flow of the presentation with a separate post-it note for each slide. Write down the exact title you are going to use on each slide. The titles alone should tell the complete story that the audience is going to hear. Secondly, sketch out the content you are going to put on each slide – word arguments, analytical tables, graphs or pictures. That way you can check that you have all the data that you need before starting to prepare the slides, and more easily see the balance of the presentation between text, tables, graphs and graphics. Once you have prepared your presentation, share it with colleagues to check that they agree with your logic, and that your story is clear.

Every presentation should include a number of standard elements:

- Agenda – so you can explain to your audience what your are going to be presenting, and the timing of your presentation
- Summary slides – both an overall one page summary of your presentation, and individual summaries at the start of each new section
- Conclusions/recommendations – sum up your findings on a single page
- Next steps – tell your audience what you plan to do next, and how you will keep them involved in the process

In the process of constructing the narrative, several teams have found it advantageous to involve individuals with executive input into the presentation, such as external advisors, as it lessens the risk of trying to rewrite the structure of the presentation at the 11th hour. Quite apart from their opinion of the content, the very process of constructing the story is very likely to increase their sense of 'ownership' with the project.

Strengths

- It allows you to see the logic and flow of the presentation at a very early stage, making experimentation and revision of the narrative far less costly (in time) compared with jumping straight in with slide design and revisions are required later.
- It also allows you to ensure that you have all the supporting information that you need before starting to write your slides.
- It allows you to see early on the viability of different elements of the presentation together, rather than as discrete units that are then stuck together in an ungainly fashion at a late stage of the project cycle.

Weaknesses

- It is an extra layer of planning which will be time-consuming. For very short presentations it might not be necessary to include all the elements listed above (e.g. agenda, summary slides etc.) However, even with very short presentations, it is valuable to think through your story, as you have very little time to engage your audience.

Pitfalls

- Including graphs, tables or analysis in your presentation just because you've done the work. If it doesn't directly support your conclusions, don't include it!
- Failing to identify the key issues that your audience wants to discuss, or failing to put together a compelling story that is fully supported by the data.
- Failing to match the claims of your commentary with the evidence in your slides.
- The clarity of the presentation achieved via storyboarding is designed to increase its impact, not substitute for the strength of the evidence and analysis.

Resources

Consulting firms tend to prepare a lot of presentations, so any colleagues who have worked for a consultancy will be able to help you prepare a compelling story for your presentation.

"*The Pyramid Principle*" by Barbara Minto describes in more detail how to structure a presentation using pyramid logic.

Preparing presentations

In Practice: SU Education Project

The Strategy Unit conducted a review of education strategy, which exemplifies many of the elements discussed above. It was a large piece of work, and several versions of the presentation were constructed for different audiences. For the presentation to the PM, we had 90 minutes, and presented about 30 slides of substance. For general circulation the complete version was around 170 slides, with a couple of annexes containing supporting material. There was vigorous discussion regarding the structure of each presentation, but the storyboarding process helped to speed-up decisions.

The common elements to each presentation were:

- The contents page laid out the structure of the pack
- Each section had a one-slide summary immediately after being introduced
- Each slide had a descriptive strap-line, with the contents backing it up, and the source of the data clearly indicated. The slides were full, but the strap line provided a clear message that can be grasped quickly
- The slide-sorter view of PowerPoint showed a balanced variety of slide formats to convey the data – text, schematics and graphs, with a common colour scheme throughout
- The conclusion was a single page, summarising the thrust of the whole report.

Strategy Skills > Structuring the Thinking

Tools & Approaches

- Issue trees
- First principles thinking
- Systems thinking
- SWOT
- PESTLE
- Creativity techniques

The ability to bring structure to complex issues and establish new conventional wisdom is a core skill in strategy development. To influence the way government thinks about an issue, strategy work needs to demonstrate superior thought leadership.

Having a clear understanding of the real problem and issues to be addressed is a prerequisite to designing effective solutions. Using **issue trees** can be a powerful way of identifying the fundamental questions that the project needs to answer.

Underpinning strategic thinking is the ability and willingness to go back to **first principles** and challenge implicit assumptions. A fresh, objective evaluation of the situation may yield surprisingly different conclusions from the current status quo.

Keeping the big picture in mind, rather than being tempted by its complexity to focus attention on specific issues, is key to developing effective solutions. **Systems thinking** techniques can help to understand dynamically complex systems by mapping out how factors influence each other. This can be powerful for helping to establish a common view of the way the world works and when trying to anticipate the likely response to possible interventions.

Analysing a situation or system along a defined set of dimensions can help to brake down the complexity and bring structure to the thinking. Two tools that work in this way are **SWOT** analysis, which involves identifying the potential Strengths, Weaknesses, Opportunities and Threats of an organisation or strategy, and **PESTLE** analysis which involves identifying the Political, Economic, Socio-cultural, Technological, Legal and Environmental influences on an organisation or strategy.

At various stages of the strategy process the team will seek solutions that are not constrained by current thinking and assumptions. Using a range of **creativity techniques** can help to break through these constraints and free the team to find imaginative solutions.

Strategy Skills > Structuring the Thinking

Issue trees

> **in practice**
> **template**

Issue trees help to identify the key issue or question that the project should address, and break it down into its smaller component parts. They can be used:

- at the beginning of a piece of strategy work to identify key workstreams
- to plan individual workstreams
- to analyse specific key questions
- to communicate the shape and direction of the work.

The trees are a useful reference point throughout a project providing context and showing how each piece of work fits into the whole. A well thought out tree should also inform how to structure communications about the project, including the final report.

Issue trees

Before embarking on the detailed thinking, some time should be spent thinking through the overarching question that the project is attempting to answer. One way of creating this statement of the problem is to note down some of the areas of enquiry and, crucially, those areas that lie outside the scope of the project. The opening question must be wide enough to encompass the full overview of the strategy if it is to be used to plan the project. Defining the starting point can be the most difficult part of building an issue tree.

The next layer should set out a series of questions that together answer the question above them in the tree. For example, if the starting question is "How can we most effectively increase employment rates through improving access to childcare?" the next layer in the tree might comprise two further questions:

- What are the most effective forms of childcare to help parents into work?
- How can government best support parents in accessing these forms of childcare?

The answers to these two questions should provide the answer to the original, higher level question. These two questions will then be further broken down, and so on, until a level of questions is reached that address the fundamental root causes of the original issue. Specific analysis can then be designed to address each one.

Each time a question is broken out into lower level questions, these lower-level questions should together give the answer to the higher level question. Moreover, these lower level questions should together cover all the issues needing to be resolved, but should not overlap each other. Questions to be resolved should fall into one of the buckets, not both. In more technical parlance, this is known as Mutually Exclusive, Collectively Exhaustive.

Although it may seem cumbersome, writing out the questions in full is very helpful as it forces clarity of thinking.

This **issue tree template** may be helpful.

For any problem, there will be a number of ways of drawing out the issue tree, frequently resting on the way in which the first set of branches is constructed. It is worth having a number of attempts at the tree (perhaps done by different members of the team), using different structures. The trees can then be evaluated on the basis of how well they seem to be working best in terms of breaking down the issues into smaller, answerable questions; in terms of breaking the project out into workstreams; and in terms of structuring future communications (reports or other documents). Techniques that can be helpful during the question-

development process include brainstorming and other creativity tools. They will help you approach the issue from a fresh perspective.

Hypothesis Tree

A variant of an issue tree is a hypothesis tree. While issue trees are likely to be most useful early on in the project when developing the project plan, hypothesis trees tend to be more useful later on in the project in structuring the conclusions and subsequent communications.

If an issue tree starts with one question; a hypothesis tree starts with one statement. Each level of the hypothesis tree is linked with the questions "why?" or "how?". This ensures that the lower level hypotheses together answer the higher level hypothesis. An example of this might be: higher level hypothesis: "Government can best support parents moving into work by ensuring availability of out-of-school childcare in the local area through pump-priming of provision of this type". The next layer of the tree will answer "Why?":

- Out-of-school care will have the greatest effects in getting parents into work.
- The price of out-of-school care is reasonable, it is the availability that is the problem, caused by difficulties amongst out-of-school clubs in meeting start-up costs.

Note that to some extent, using a hypothesis tree relies on having some knowledge of the content of the likely solutions.

Work planning

Issue or hypothesis trees can feed directly into detailed work planning. A work plan could have sub-issues on the left hand side, with activities to answer the question, sources and outputs on the right. For example:

Issue	Sub-issue	Activities	Sources	Outputs	Responsible	Due date
What are the most effective forms of childcare to help parents into work?	What forms of childcare are most working parents currently using?	Review the evidence on use of childcare by working parents	Parents Demand for Childcare Survey	Paper on the most effective childcare to get parents into work, including estimated impact		

Strengths

- A powerful tool providing the opening question is right – wide enough but not so wide that issues outside the scope of the study are included – to find the most effective initial breakdown.
- Can be used to structure the development of the project and define the workstreams.

Weaknesses

- Interdependent issues may be divided across branches of the tree. It is worth keeping this in mind.
- Does not give any sense of priorities. The team should focus on those areas of the tree that are likely to have the most impact on the eventual conclusions and impact of the project.

Resources

"The Pyramid Principle" by Barbara Minto gives an explanation of the type of logic involved in thinking in tree structures.

Structuring the thinking - Issue trees

In Practice: SU Childcare Project

The SU Childcare project used an issue tree to identify all the issues in the childcare arena. By breaking out all the questions in this way, the team:

- designed the overall project plan
- constructed workstreams
- gave a kick-start to the process of work planning within these workstreams
- began to think about the structure of the report and other communications.

The team decided to develop the tree in some detail as it was proving helpful in work planning.

Example: **A fully worked-out example from the Childcare project**

The team continued to revisit the issue tree as the project unfolded as a means of monitoring progress and to kick start thinking as new workstreams were started up.

The first couple of levels of the tree and, crucially, the opening problem statement, were discussed as a team – though a number of team members had attempted first cuts from which we worked. A smaller team then further developed the tree and translated it into the project plan.

Strategy Skills > Structuring the Thinking

First principles thinking

Although strategy needs to be developed with a pragmatic and realistic understanding of delivery constraints and real world complexity, it is important that strategic thinking is not constrained or limited by existing legacy norms and assumptions.

What Is It?

Going back to first principles is simply a way of thinking that challenges implicit assumptions and current approaches, and uses an objective assessment of available evidence and knowledge to come to fresh logical conclusions.

Why Is It Useful?

Situations often arise where the current state of affairs would never have been explicitly designed or intentionally constructed. Rapidly changing environments or a history of uncoordinated incremental interventions can result in unintended consequences and behaviours driven by distorted incentives.

In the same way, the rationale for a policy programme or intervention can become lost or muddied over time. It is possible for policies to acquire legitimacy simply by virtue of being in place for long periods, with the original underlying assumptions becoming so taken for granted that they become received wisdom. Standard behaviours and ways of working are then in danger of continuing unchanged despite these assumptions having long lost their validity.

By going back to first principles it is possible to take stock of a policy – how it fits with and drives towards strategic outcomes, and whether it is still an effective means of addressing the underlying problem. First principles thinking encourages an explicit recognition of the drivers, incentives and rationales driving behaviours and interactions in a system and ultimately challenges resource allocation decisions.

The Necessary Conditions

Obtaining a mandate for the kind of fundamental re-evaluation encouraged by first principles thinking is one of the biggest challenges in strategy development. Those working within clearly defined strategy projects commissioned by high-level sponsors such as ministers may be given such a remit, but those developing new strategies within their policy areas too often come up against fixed boundaries.

Going back to first principles can mean re-opening issues that have lain dormant for years, and allows no room for sacred cows or 'undiscussables'. For strategy work to be truly effective, the importance of gaining the commitment of stakeholders to a fundamental re-think can not be understated.

It is also important to nurture a conducive culture and working style – one in which norms can be challenged and creative ideas are encouraged. 'Greenhousing', or protecting creative ideas that are generated in brainstorms, is an important way of encouraging innovative and fresh approaches to an issue rather than immediately finding faults or flaws in an idea.

Stepping outside of the current situation, and identifying and setting aside current assumptions requires space and time to think. This is naturally easier in the context of clearly defined strategy projects than in business-as-usual situations. However, it is equally important in both situations if strategy is to be not only developed effectively but also fine-tuned to remain effective in response to a changing environment.

Physically leaving the location embodying the current situation through an away day can be a more than symbolic way of creating space to think. It can help to provide some useful distance from both the

environment in which prevailing assumptions are taken for granted, and also from the more practical pressures of day to day issues.

Keeping A First Principles Perspective

Whether developing a new strategy, or managing the ongoing implementation of a policy, it is valuable to develop and retain an objective first principles perspective. Regularly asking the question 'why?' can be a powerful way of uncovering the motivating forces shaping the behaviour of different players in a system, and checking that the underlying rationale, incentives and structures are still appropriate and valid.

Designing a System From First Principles

Given the space to rethink an approach to a policy issue, first principles thinking encourages an explicit approach to identifying and understanding the drivers and incentives that are together expected to determine behaviours and hence outcomes of a system. Techniques such as **Systems Thinking** and Theories of Change (described in further detail in **The Magenta Book** on Policy Hub) use similar logic and again stress the importance of understanding the causal sequence through which an intervention is anticipated to have its effect.

A first principles approach also encourages the generation of 'ideal' solutions. Temporarily putting aside issues of feasibility and acceptability allows the ideally suitable solution to be designed. This ideal world solution can be used to challenge resources allocation decisions and explore the political appetite for radical change.

Strengths

- Helps to challenge implicit assumptions.
- Uncovers perverse incentives, undesired behaviours and unintended consequences.
- Encourages a fresh approach to issues, and helps to develop creative and innovative solutions.

Weaknesses

- Challenging the status quo can be uncomfortable, especially for those with vested interests.
- It can be very hard to challenge fixed boundaries that are not initially open to debate and to obtain the necessary mandate and commitment for a fundamentally re-think.

First principles thinking

In Practice: SU Alcohol Misuse Project

In the Alcohol project, going back to first principles meant asking questions such as:

- Why should Government intervene/have a role at all?
- What should the overall goals of government policy in relation to alcohol be? Maximising well-being? Or reducing harm?
- Where is the line between the responsibilities of the state and the responsibilities of the individual?
- What are the rights and responsibilities of other actors in tackling alcohol-related harm - e.g. should the alcohol industry be required to internalise the externalities of its products?
- Should we be taking whole population measures to tackle alcohol-related harm (e.g. by increasing price), or should we target particular harm-causing groups (e.g. young binge-drinkers?)
- Is alcohol a drug like any other? Would it be legal if it were invented today?
- What is alcohol-related harm? Harm to the drinker? Harm to drinker's friends/family? Harm to wider society? Are some types of harm more serious than others?

Strategy Skills > Structuring the Thinking

Systems thinking

> **in practice**

A key component of thinking strategically is recognising that issues do not exist in isolation. Holding a mechanistic view of policies as levers that have a focused and direct impact on a situation, without considering the wider implications of an intervention, can be short sighted and potentially disastrous. Strategic thinking requires the inter-related nature of circumstances to be recognised up front rather than relying on a post hoc screening to identify unintended consequences and impacts.

What Is Systems Thinking?

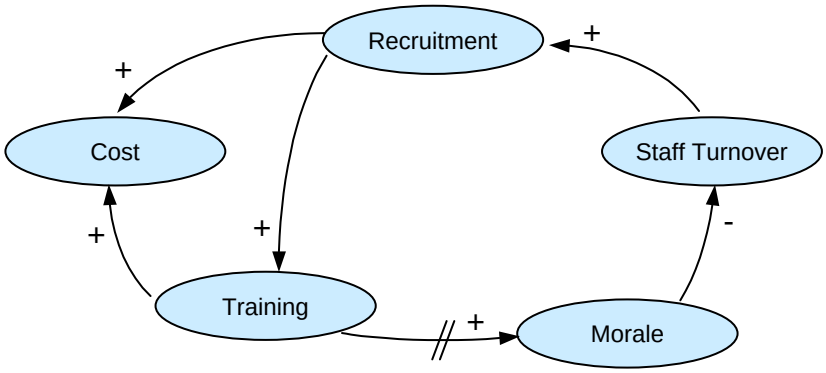
Systems thinking is both a mindset and particular set of tools for identifying and mapping the inter-related nature and complexity of real world situations. It encourages explicit recognition of causes and effects, drivers and impacts, and in so doing helps anticipate the effect a policy intervention is likely to have on variables or issues of interest. Furthermore, the processes of applying systems thinking to a situation is a way of bringing to light the different assumptions held by stakeholders or team members about the way the world works.

When Is It Useful?

Systems thinking is particularly powerful for understanding dynamic complexity, which stems from the relationships between factors in a system. A dynamically complex system cannot simply be broken down into pieces in the same way as a structurally complex system, which derives its complexity simply from the sheer number of factors involved. Where structural complexity can be modelled and managed using databases and spreadsheets, dynamic complexity needs a more organic approach to understand the complex web of influences that often results in various forms of feedback loops. Such loops add a time dimension to system complexity and often magnify or dampen the intended effect of an action in a non-obvious manner.

Influence Diagrams

The core tool in systems thinking is the influence diagram, which captures graphically how each factor or variable in a system influences the others. Arrows are used to indicate the direction of the influence together with a '+' or '–' sign to show whether an increase in the one variable leads to an increase or decrease in the other. A double line across an arrow indicates a delay before the influence is felt.



In the diagram above, an increase in training leads to an immediate increase in costs, but – via a delayed increase in morale which in turn reduces staff turnover and hence recruitment – a delayed reduction in costs. An additional complication is provided by the feedback loop driven by the relationship between recruitment levels and the need to train new staff.

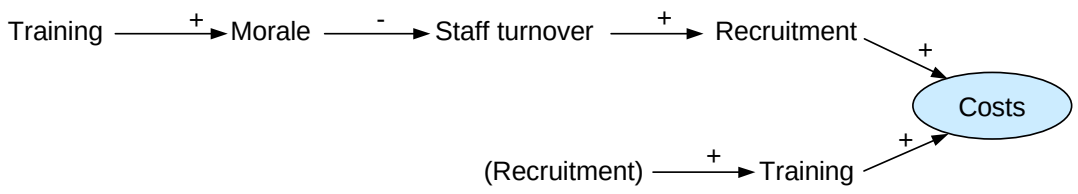
The diagrams help to improve understanding of the drivers of behaviour in the system, and can uncover counter-intuitive effects of interventions. They can show how a change in one factor may have an impact elsewhere or feed back to affect itself, and also how two seemingly independent factors are actually linked.

Influence diagrams are best constructed in a working session with a small number of key people. The sessions are likely to stimulate in depth discussion as each participant's assumptions and views are explored and incorporated into the emerging picture.

Driver Trees

An influence diagram aims to map the relationship between all the variables in a system. However, it is likely that there are one or two key variables of particular strategic interest that need to be either maximised or minimised. Unravelling the influence diagram into a driver tree can be a powerful way of highlighting and communicating the drivers of these key variables, and hence provide insight into the kind of interventions that are needed to impact them.

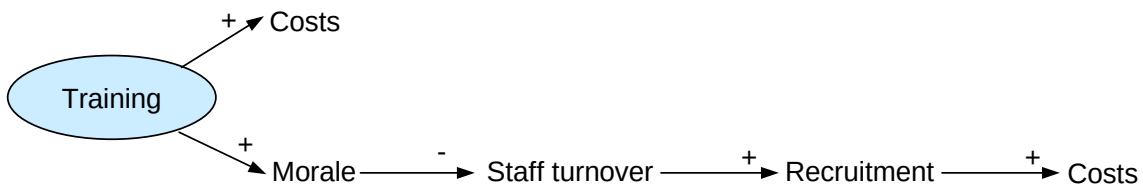
Unravelling the influence diagram above can help to highlight the drivers of cost. The feedback loops in the system mean that certain variables appear in more than one branch of the tree. Where variables are repeated in this way they are conventionally placed in brackets.



Driver trees raise a number of questions, not least the relative significance of the different branches of the tree in driving the key variable.

Impact Trees

There will be only a limited number of variables within a system that can be directly influenced to act as levers for change. An alternative way to unravel the influence diagram is to highlight the impact that managing these variables will have on the rest of the system. Again using the example influence diagram above, an impact tree can be constructed to more explicitly highlight the consequences of increasing the level of training as described above.

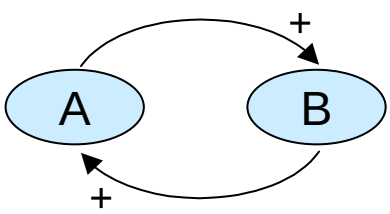


Impact trees provide a causal sequence for understanding how managing one variable is expected to have an impact on another variable of interest. Social Researchers encourage a similarly explicit articulation of how an intervention is expected to have its impact using Theories of Change methodology, outlined in the **Magenta Book**.

Interpreting Feedback Loops

Constructing an influence diagram will highlight the great number of feedback loops that exist within any complex system. Interpreting these loops is central to understanding the likely behaviour of the system.

Reinforcing Loops



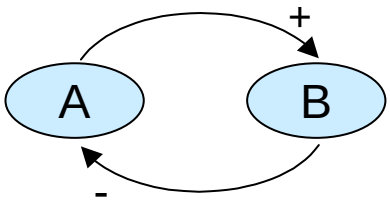
A dominant reinforcing loop is a self-sustaining process that will lead to either exponential growth or decay. The critical factor is whether the process is proceeding in the desired direction, as once started the process will continue unchecked unless an intervention is made to break the cycle.

The rise and decline of neighbourhoods demonstrates the potentially beneficial or destructive power of reinforcing feedback loops.

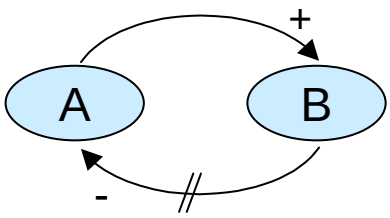
Balancing Loops

A balancing loop perpetuates the status quo. As one factor changes, other factors exert a balancing influence to return it to original level.

This behaviour can either act as barrier to change or a beneficial stabilising mechanism. To drive change any intervention must be influential enough to over-ride the balancing effects.



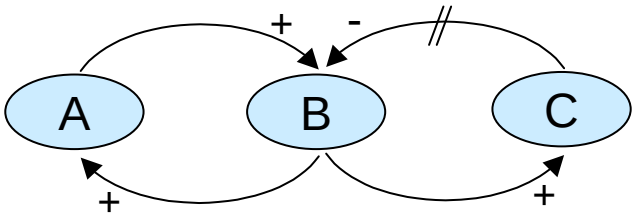
Balancing Loop with a Delay



A delay in the influence of a balancing effect can produce oscillatory behaviour through repeated over compensation. As the balancing forces act to maintain the status quo, the lack of responsiveness in the system means that corrective action is excessive and the mark is over shot.

Aggressive or heavy-handed management of such a system will produce instability. If the system can not be made more responsive the only option is to take change more slowly.

Reinforcing Loop with Delayed Balance



A reinforcing loop with a delayed balancing influence will demonstrate ‘s-curve’ style growth. The reinforcing loop produces a period of accelerating growth or expansion, which then slows and eventually comes to a halt under the delayed influence of the balancing effect. A classic learning curve follows this pattern.

Sustained growth can not achieved by simply encouraging the reinforcing process, but must be unlocked by removing or weakening the balancing influence that is creating the limitation to sustained growth.

Using Systems Thinking

- Work in groups: developing an influence diagram as a group exercise forces everyone to explicitly list the factors that matter in the system and then decide on the relationships between them.
- Use the influence diagram and tree to identify areas of study at the very beginning of the work and intermittently thereafter for further direction.
- An influence diagram can include both quantitative and qualitative factors and relationships.
- The tree and influence diagram can be used to inform the construction of quantitative models using software such as **Vensim** (free for personal use), **ithink** or **Powersim**, which can be used to

simulate system behaviour. (Note that the model's usefulness will be limited by the difficulty of meaningfully defining a mathematical algorithm for each influence or relationship).

- This approach is best used for designing and testing interventions, rather than designing systems.

Strengths

- Systems thinking can generate new insights into the drivers of a dynamically complex issue.
- The systems approach provides a powerful way for project teams to establish a shared agenda for addressing a problem. It allows development of consensus and ownership, leading to shared commitment to decision making.
- It ensures feedback loops are recognised and incorporated into policy design.
- The systems approach provides a powerful way for project teams to reach a shared understanding of how a system operates.

Weaknesses

- It is very easy to overcomplicate the system map and lose the key insights. It is important to focus on the key feedback loops and cut out the less important links.
- The process can be significantly undermined by team members who:
    - dislike the approach and are out to prove it does not work
    - are committed to a prior solution or who are fixated on finding "a solution"
    - have hidden agendas that they are unwilling to disclose.

References

"Systems Failure" by Jake Chapman (Demos)

Checkland, P "Systems Thinking, Systems Practice", Wiley, 1981

Checkland, P and Scholes,J, "Soft Systems Methodology in Action", Wiley 1990 which provides a thorough update of the methodology together with several extended examples.

"Practical Soft Systems Analysis" by D.Patching, FT Prentice Hall 1990 provides a simple step by step introduction

"The emergent properties of SSM in Use: A symposium by reflective practitioners" by P.Checkland et al, Systemic Practice and Action Research, 13(6) p.799 2000 contains personal accounts of experience in the use of SSM in a wide range of contexts.

The **Mind Tools** website provides an introduction to system thinking and the behaviour of feedback loops.

Rich Pictures are another creative way of representing systems.

"Systems Thinking: a practice guide" by Business Dynamics, IBM Business Consulting Services (**trevor.cooper@uk.ibm.com**)

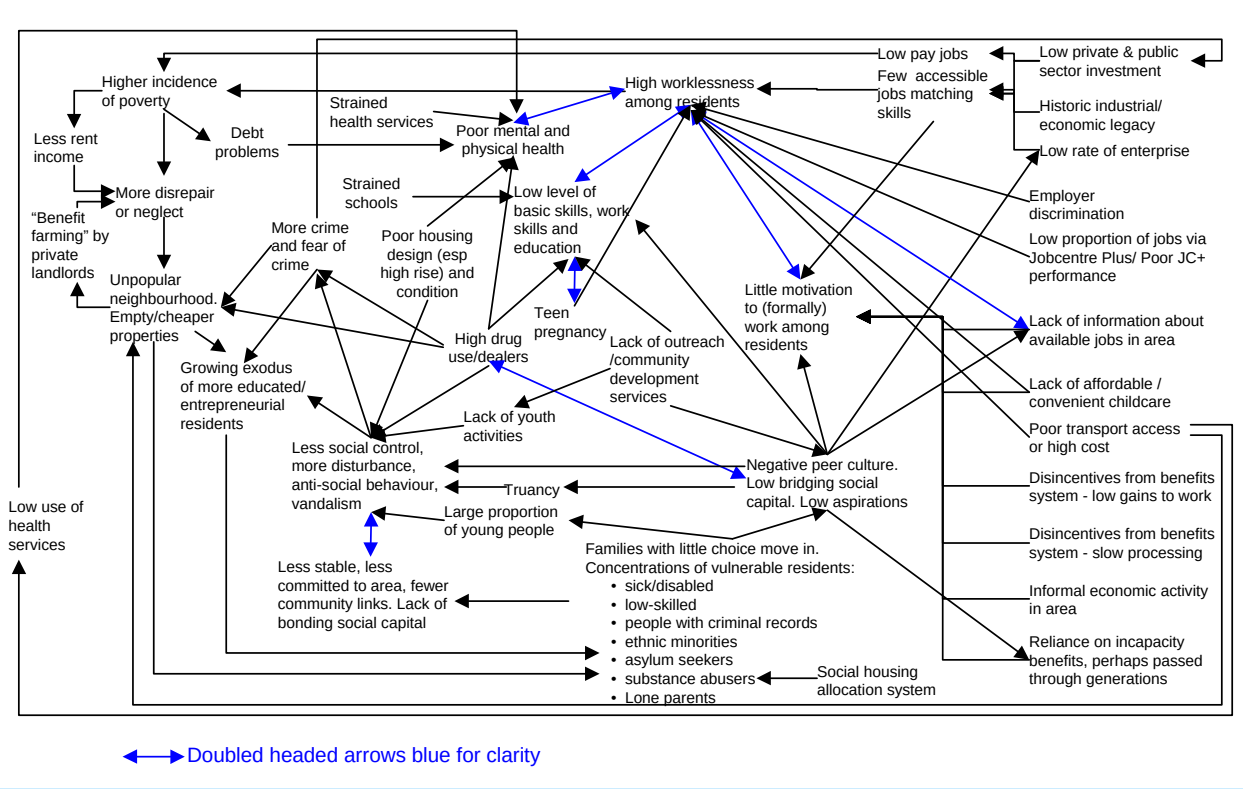
Business Dynamics: Systems Thinking and Modelling for a Complex World . By John Sterman

Systems Thinking, is **The Fifth Discipline Fieldbook: Strategies and Tools for Building a Learning Organisation.**

Structuring the thinking - Systems thinhking

In Practice: SU Deprived Areas Project

The Deprived Areas team wanted to examine the dynamics of deprived areas, mapping out the factors that, when combined, can 'lock' an area into deprivation. The existence of a 'vicious circle' in deprived areas had been indicated by academic studies and regeneration practitioners and the team wished to amalgamate the studies and combine them with further research to understand all of the factors contributing to this vicious circle. The team used evidence from visits to deprived areas, interviews with regeneration practitioners and academic studies to start building up a picture of the links in the cycle. It soon became clear that a multiplicity of factors were contributing to the 'cycle of decline', including factors relating to the operation of the housing market, incentives to work, and social capital. A very complex influence diagram containing around 40 linked factors was developed.



The cycle of decline proved a useful tool in the following ways:

- It illustrated the importance of linking physical regeneration (housing, environment) with economic, 'work-focused' factors and social factors, with implications for government policy towards deprived areas.
- It showed where the performance of public services can perpetuate the problems in deprived areas, and therefore where government can take action immediately.
- It showed how some factors, e.g. poor health. appeared to be mainly an outcome of deprivation, rather than a driver, with implications for priorities for public expenditure in deprived areas.
- It allowed the team to identify where interventions might be effective in 'breaking' the cycle and helping areas to regenerate.

Further development of the cycle included analysis of where different drivers might apply to different types of deprived area, and work to show how successful interventions in the main drivers might create a 'cycle of success'.

Strategy Skills > Structuring the Thinking

SWOT

> **in practice**

A SWOT analysis can be a useful way of summarising the relationship between environmental influences and core competencies and hence framing the agenda for developing new strategies. It can be simply understood as the examination of an organisation's or a strategy's internal Strengths and Weaknesses, and its external Opportunities and Threats.

How to use SWOT

Identify the external factors acting upon the organisation or policy area using tools and methods such as **PESTLE** and **market analysis** (including five forces). Undertake the same process in terms of internal resources and competencies, using tools such as **organisational analysis**.

Use the SWOT framework, as shown below, to summaries the findings of these exercises.

Internal	**Strengths**	**Weaknesses**
	1 2 3 4 5 6	1 2 3 4 5 6
External	**Opportunities**	**Threats**
	1 2 3 4 5 6	1 2 3 4 5 6

List specific items related to the issue at hand under the appropriate heading in the table. It is best to limit the list to 10 or fewer points per heading and to avoid over-generalisations. Use evidence to answer the following, or similar, questions:

Strengths

- What are the/our advantages?
- What does the strategy/policy/service/sector do well?
- What do other people see as its/our strengths?

Weaknesses

- What could be improved?
- What does the strategy/policy/service/sector do badly?
- What do other people see as its weaknesses?
- What should be avoided?
- Are there other similar services, strategies, policies etc that are doing better?

Opportunities

- Where are the good opportunities?
- What are the interesting trends that you are aware of?

  Useful opportunities can come from such things as changes in technology and markets on both a broad and narrow scale, changes in social patterns, population profiles, lifestyle changes and local events

Threats

- What are the obstacles to improving performance/delivery etc?
- Are the required specifications for the service/strategy/policy changing?
- Is the strategy/policy/service sector under pressure as a result of changes in circumstances, demand/expectations? Is changing technology threatening your position?

This analysis should provide some useful insights that will help to ensure that the strategy capitalises on identified strengths and minimises or eliminates weaknesses, takes advantage of opportunities and avoids or lessens threats.

Strengths

- A useful way of summarising and combining previous analyses.
- Can be used as framework for a "quick and dirty" brainstorming of a situation.

Weaknesses

- Definition of factors as opportunities or threats is not always clear: choice of strategic direction may influence whether external factors are threats or opportunities. Separation of strategic analysis from strategic choice is therefore somewhat artificial.
- SWOT analysis is sometimes used to brainstorm ideas at the beginning of analysis rather than as a tool for summarising findings of analysis. Using the tool in this way can be very subjective and should therefore not be relied on heavily, as two people or groups rarely come-up with the same final version of SWOT. If SWOT analysis is used in this way it should be revisited following further analysis.
- Bear in mind that while the SWOT model helps summarise *external* opportunities and threats, opportunities and threats can also be *internal*.

References

S Tilles, 'Making strategy explicit' in I Ansoff, *Business Strategy*, Penguin 1968

Exploring Corporate Strategy, Gerry Johnson and Kevan Scholes

Structuring the thinking - SWOT

In Practice: SU Alcohol Misuse Project

The team constructed a SWOT analysis following some preliminary research and discussions with key stakeholders in order to:

- Summarise the assessment of the strengths, weaknesses, opportunities and threats within the UK drinks industry
- Provide an easily accessible framework for identifying the relevant commercial issues affecting the UK drinks industry
- Build a picture of the general business drivers within the UK drinks industry
- Crystallise key trends, issues and considerations.

Internal	**Strengths**	**Weaknesses**
	1. Strong brand awareness, powerful international brands 2. Multi-nationals have developed profitable scale economics 3. Drinks brands are flexible and can be adjusted to reflect changing tastes 4. Greater diversity of catering outlets and venues with bars have opened up to new markets for drinks 5. Multiple grocers can give drinks large areas of display in the superstores	1. Near monopolies or duopolies exist in many segments, making barriers to entry high 2. Large multiple retailers have increasing buying power 3. Production costs are relatively low leading to low cost imitations 4. Exports for traditional British products are weak 5. Pressure from Alcohol Concern etc
External	**Opportunities**	**Threats**
	1. Consumption of some drinks is still lower in the UK than in other countries, leaving room for increases in per capita consumption 2. Young consumers' thirst for novelty presents an opportunity for continuos innovation 3. Further de-regulation of the licensing laws will extend the opportunities for distributing drink in the on-trade	1. Since production costs are low and marketing costs are high, drinks brands are always under threat from own label products and other brands 2. Alcopop's cannibalising beer and cider 3. Flavoured water cannibalising carbonates 4. Contraband and legitimate products bought across borders and present a threat to profitability 5. Smaller companies are constantly faced with the threat that their launches might be overshadowed by large multi-national marketing budgets 6. Mergers will be heavily supervised by government as the industry continues to consolidate

Strategy Skills > Structuring the Thinking

PESTLE

> **in practice**

PESTLE analysis aims to identify and summarise environmental influences on an organisation or policy.

PEST analysis involves identifying the political, economic, socio-cultural and technological influences on an organisation - providing a way of auditing the environmental influences that have impacted on an organisation or policy in the past and how they might do so in future.

Increasingly when carrying out analysis of environmental or external influences, legal factors have been separated out from political factors (due to increasing legal influences outside national political systems, such as European and regional legislation). The increasing acknowledgement of the significance of environmental factors has also led to Environment becoming a further general category, hence 'PESTLE analysis' becoming an increasingly used and recognised term, replacing the traditional 'PEST analysis':

P – political

E – economic

S – socio-cultural

T – technological

L – legal

E – environmental

The following can be used as a checklist to consider and prompt analysis of the different influences. The model can then be used to inform and guide further analysis.

1. Which of the environmental factors are affecting the organisation?
2. Which of these are the most important at the present time? In the next few years?

Political

- Taxation policy
- Local government / devolved administrations

Economic

- Business cycles
- GNP trends
- Interest rates
- Inflation
- Unemployment
- Disposable income

Socio-cultural

- Population demographics

- Income distribution
- Social mobility
- Lifestyle changes
- Attitudes to work and leisure
- Consumerism
- Levels of education

Technological

- New discoveries
- ICT developments
- Speed of technology transfer
- Rates of obsolescence

Legal

- International/European Agreement/Law
- Employment Law
- Competition Law
- Health & Safety Law
- Regional legislation

Environmental

- Environmental impact
- Environmental legislation
- Energy consumption
- Waste disposal

The items in the list above are of limited value if they are merely seen as a listing of influences. It is therefore important that the implications of the factors are understood. It may be possible to identify a number of structural drivers of change, which are forces likely to affect the structure of an industry, sector or market. It will be the combined effect of some of these separate factors that will be important, rather than the factors separately. A good example can be found in the forces which are leading to increased globalisation of industries and markets.

It is particularly important that PEST(LE) is used to look at the future impact of external factors, which may be different from their past impact. Using **scenarios** may help with this.

PEST(LE) analysis may also help to examine the differential impact of external influences on organisations either historically or in terms of likely future impact. This approach builds on the identification of key trends and asks to what extent they will affect different organisations.

Strengths

- Straightforward, easy to grasp tool
- Broad categories, covering major environmental factors – can prioritise specifics for own policy area
- Can generate a lot of material about influences
- Can help to identify the long term drivers of change which can be built into scenarios

Weaknesses

- Will be of limited use unless the results are used to inform and guide analysis.
- Of limited use unless there is some analysis of the differential impact of the trends – need also to indicate which can combine to greater effect and which might cancel each other out.

References

Exploring Corporate Strategy-Gerry Johnson, Kevan Scholes)

Structuring the thinking - PESTLE

In Practice: SU Alcohol Misuse Project

The team constructed a PEST analysis from the view point of industry following some preliminary research and discussions with key stakeholders in order to:

- Provide a framework for understanding the macro environment in which the drinks industry operates
- Provide a means of identifying key external trends to feed into decision making
- Identify key areas of relevance to policy making
- Provide a distillation of key themes and considerations

POLITICAL

- Concern about binge drinking and anti-social behaviour
- Government use increased demand for alcohol as a way of boosting indirect tax revenues. No harmonisation across the EU which means cross border shopping is common
- Duty Free trading abolished in the EU in 1999 with little affect on the drinks industry
- International consolidation had led the EU to pay attention to cross-border mergers as they influence domestic markets

ECONOMIC

- Rising consumption has been linked to an increase in the relative affordability of alcohol, and in particular increases in consumer's disposable incomes
- Price fluctuation can be dictated by global commodity markets which gives multi-nationals an advantage
- Increasing price differential between on and off trade

SOCIO-CULTURAL

- Drinking is built into the social fabric
- Recent upsurge in café culture
- Increase in eating out and in holidaying overseas - impact on consumption of wine and bottled water
- Increases in under age drinking
- Health of consumers

TECHNOLOGICAL

- packaging
- bottling
- influence of the Internet and eCommerce

LEGAL

- Licensing Act 2003
- Private Security Industries Act 2003
- Beer Orders and other changes to Competition Law in the 1990s

ENVIRONMENTAL

- Increasingly focus on the sustainability agenda - and corporate social responsibility

Strategy Skills > Structuring the Thinking

Creativity techniques

> **in practice**

Creativity tools are used to help policy makers develop innovative solutions to problems and spot opportunities that might not be identified through more conventional analysis and policymaking approaches.

There are a number of different creative techniques that can be useful when approaching a strategy project. These include Brainstorming, ?What*If!'s 4Rs*, Synectics' idea development model, and Edward de Bono's Thinking Hats.

Brainstorming

The brain is a very powerful instrument. It learns responses based upon previous experiences. This can be very useful - we do not have to learn how to get dressed every day, we know that pants go on before trousers (usually). ?What*If*! describe these regular responses as 'rivers of thought'. When faced with a problem, we automatically start exploring the things we know for a solution. But radical solutions are never going to be found within the problem area. We have to force our brains to jump out of the well-worn river channel into another one. There are a number of brainstorming techniques to encourage this out-of-the-box thinking. ?What*If*!'s technique is called the '*4 Rs'.*

?What If!'s 4 Rs

***R**andom Links*

This is the technique that feels most creative - and it is also the easiest to do and is very effective. There are 2 rules: the random item must be truly random; and you must find a connection. The random item can be physical (a tennis ball, some feathers, a glove . . .) or a word picked at random from a book or a list of words. The technique then involves thinking about the characteristics of the random stimulus, and applying them back to your problem.

Example: You are looking at the problem of young adults' education; your random object is a pack of sweets. The sort of connections you may start to make might include:

- Sweets are small treats – divide courses into very short sessions, about a day, with a reward for each day completed.
- Sweets are full of sugar, which gives you energy – emphasise how learning makes you more interested in learning more.
- A packet of sweets is easy to carry around – make course notes into pocket books, or put them onto CD so people can study on the move.

There are thousands of other connections that can be made. Each of these ideas would collapse easily if faced with criticism at this stage; so they need to be built upon, greenhoused, and support built up around them. An idea should never be discarded until it has been given a chance.

***R**evolution*
This is creativity at its most provocative. It is the deliberate challenging of rules and assumptions. Very often, our ability to come up with innovative ideas is limited by the rules of our own particular river. Revolution breaks those rules. Here are 5 questions that may get you started:

- What if we did nothing?
- What if we had to do it at half the cost? - *reduce adult learning courses to bare essentials and have 'key points' packs*
- What if demand was twice as high? - *energy may lead to home study groups*
- What if we reversed the process? - *young adults have to teach a skill to others*
- What if we exaggerated the issue? - information everywhere: billboards with dates of major battles, bus tickets with useful foreign words

***R**e-expression*
The way tasks and issues are expressed tends to be limited. We rely on jargon, which send us off down the same old rivers of thought. Describing the problem in a different way can make the brain jump to a new river. Re-expression is a way to do this:

- Re-express with alternative words
- Re-express using different senses
- Re-express from someone else's perspective (e.g. a child, an alien)
- How would it appear to Napoleon? Or Abraham Lincoln? Or Florence Nightingale?

***R**elated worlds*
Never assume you are the only person to have faced an issue like the one you are facing, or that you cannot learn from the world around you. Related worlds is a technique that allows you to harness the experience of others in a creative way. For example, the roll-on deodorant was invented by stealing the principles from ball-point pens.

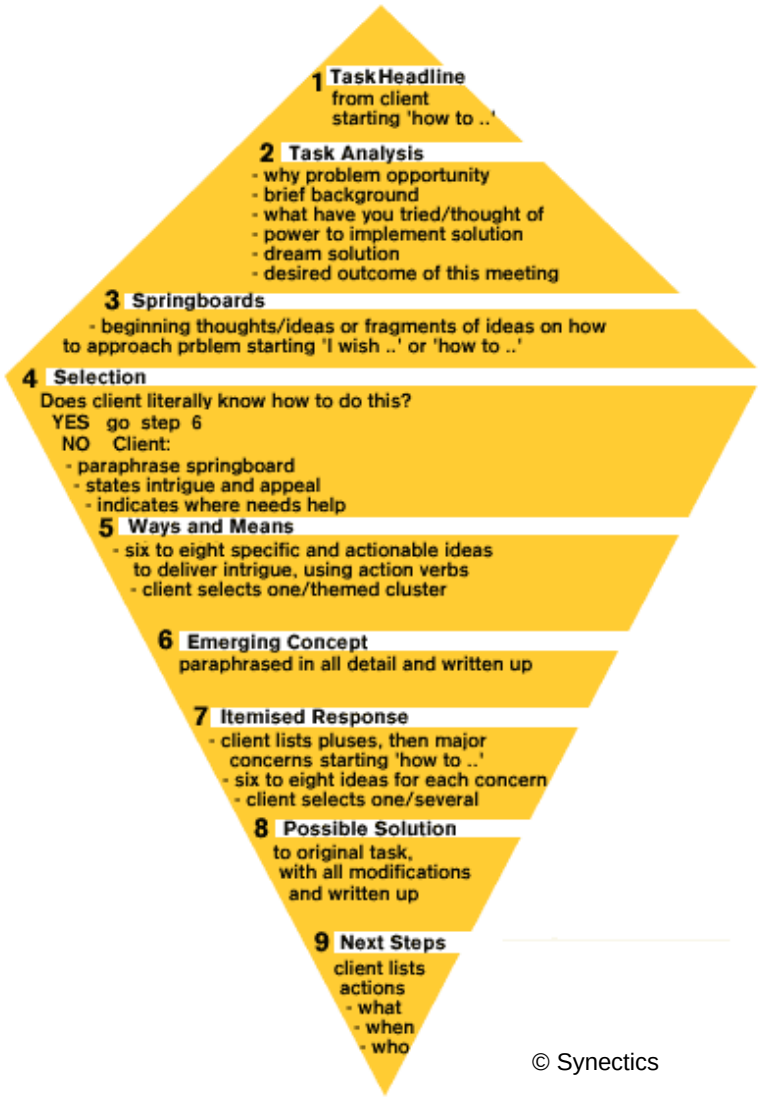
- importance of 'freshness'
- visit other businesses
- talk to people not in the field
- look in other disciplines (e.g. nature)

See the **in practice** example from the Strategy Unit Workforce Development project.

Synectics: Developing an idea from a brainstorming session

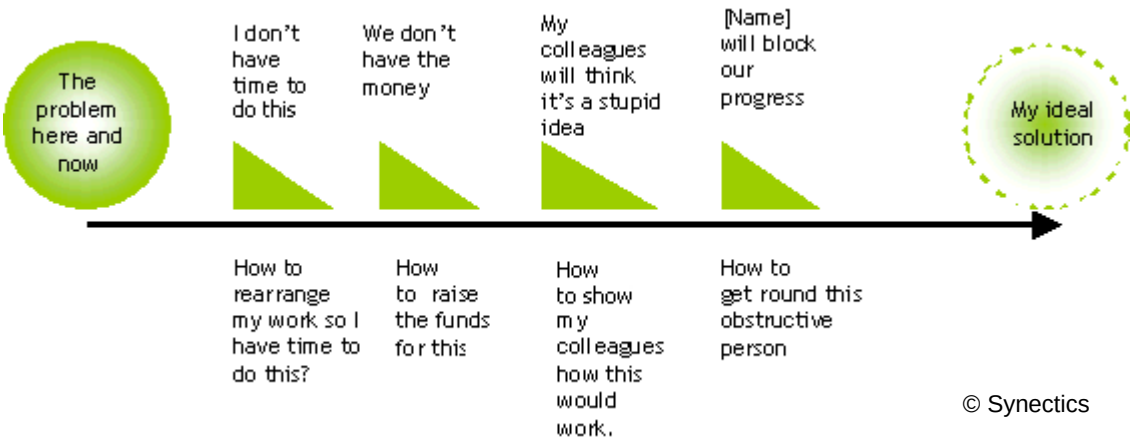
Brainstorming sessions are great for generating hundreds of ideas and building up energy and motivation within a team. The danger is that all this will be lost if the ideas are not developed and are either abandoned or shared too soon.

Synectics is a creativity consultancy that has pioneered a way to develop ideas beyond the initial phase to really implementable new solutions. They have a model that can be represented by the diamond shape below:



© Synectics

Beyond the 4th stage, Selection, is the main part of the diamond, where most of the work takes place and where the hundreds of ideas that were created in the top half are turned from the intriguing or appealing into a few that are really workable. For each idea, one needs to list all the benefits that will come from it and all the major concerns that you associate with it. Then use the rest of the team to brainstorm possible solutions to these mini-problems phrased in a positive way. Between the problem and the ideal solution are many small hurdles, but each can be fenced off and dealt with individually. This stops you from feeling that the ideal solution is so far away from where you are now that it is unattainable....



© Synectics

...by dealing with each of these on its own – so you can move along the line from problem to solution.

For example, Sub-problem: My colleagues will think it's a stupid idea

This is a problem because without their support I'll never get the resources I need to develop and implement the idea. I wish I could show them how this would work. If I built a model, or tried it out on our office team, or found a case study, then I could demonstrate the benefits to them. But I do not have time to do this.

You've hit another hurdle, so it's through the process again. I wish I could find the time to run a demonstration of my idea. If I could delegate some more of my work, change my working hours to devote half a day a week to this, agree with my manager that the report on ABC can wait for a month . . .And so on.

Edward de Bono's Six Thinking Hats ®

Edward de Bono's Six Thinking Hats ® technique can help to organise thinking and make it more effective and more powerful. The approach is widely used by multi-national organisations, such as Siemens, IBM and Shell.

The hats represent alternative perspectives from which to view an issue. By wearing one hat at a time, the energy of the team can be focused in a particular direction allowing opinions and ideas to be expressed more freely, and unnecessary conflict to be avoided.

The benefits of using the Six Hats include:

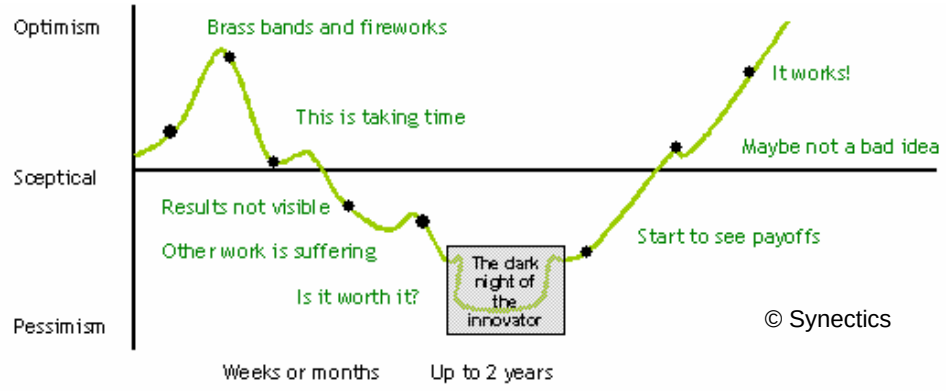
- accessing the intelligence and knowledge of all the group
- limiting opportunities for argument and counter argument
- saving time through parallel thinking
- cutting down on ego and power displays
- giving each aspect of the issue time and space to be discussed.

The six hats are each given a different colour:

- The **white** hat is neutral and focuses exclusively and directly on the facts
- The **red** hat allows for emotions and intuition
- The **black** hat advises caution, pointing out the risks, threats and obstacles
- The **yellow** hat sets out to find the benefits and how an idea might be put into practice
- The **green** hat is used to put forward new ideas, building upon existing proposals
- The **blue** hat defines the problem and organises the thinking.

Lessons from trying to be creative

1. It can take time. After the excitement of a creativity session, the plunge back into day-to-day working can be depressing. The wonderful ideas seem to have been shelved, the camaraderie and motivation seems to have disappeared. We found this was all normal. Synectics describes the Path of Innovation like this:



2. Some changes are only small. The ideas may include ways to change the world, and if the changes you manage to implement are small – new organisational changes for instance – there may be a tendency to feel downhearted. Don't be, small changes can have more effect than you think. Which leads to:

3. Change the atmosphere and culture first. Making a place feel creative is something that is fun and easy to do – by legitimising the creative process in this way (brainstorming rooms; office art; a new language; and so on) so you encourage **bravery** which is key to people being creative.

Strengths

- Creativity tools can generate radical and innovative solutions
- Lots of fun and can help with team building

Weaknesses

- Radical ideas are often not developed after the session and policy makers fall back on "safe options"

References

There are hundreds of books on creative thinking, and you'll find the ideas touched upon here repeated in very similar ways. The information above is drawn mainly from:

Allan D et al (1999) *Sticky Wisdom, How to start a creative revolution at work.* **?What If!** Limited

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Edward De Bono (1999) *Six Thinking Hats*. Penguin Books, London.

Synectics

These other web links to free creativity resources may also be useful:

globalideasbank - A suggestion box for socially innovative non-technological ideas and projects

brainstorming

creativityatwork

creativitypool

gocreate

Structuring the thinking - Creativity techniques

In Practice: SU Workforce Development Project

Towards the end of the analysis phase of the Workforce Development project the team organised an away day to begin the transition towards policy formation. Through the related worlds exercise the team alighted on the comparison of Workforce Development with that of health and fitness. Despite being considered 'good for you', participation in exercise and trends in healthy eating seem to have boomed in recent years. How had this been achieved and what lessons might be learnt for WfD policies around motivation, incentives and strategies to stimulate demand for training and skills development?

Initially a brainstorm on the characteristics of the health and fitness market and attitudes towards it threw up some useful insights into drivers of demand, for example:

Health and fitness:

- seems to have become fashionable/a status symbol
- wide variations in participation and cultures: young professionals vs. the couch potato
- growing market in healthy eating - many consumers are prepared to pay more for 'organic' foods perceived as higher quality and not mass produced or necessarily homogenous
- expression of interest - fitness can often be overridden by other commitments and time pressures (or these are blamed when real motivation is lacking)
- scare tactics have been important in changing mindsets (heart disease, smoking etc) but they only work with some people
- it's the outcome that sells the product as the process itself is not intrinsically attractive: "if it makes you thin, rich and sexy it will sell".

Next, ideas around how health and fitness might be further encouraged in the future were explored. These ranged from scientific advances enabling us to produce healthy ice cream and pizza to incentivising employees to cycle to work by providing those who do with a 'free (organic) lunch'.

Thinking about a related world was refreshing for the team as it emerged from the intense analysis phase. The exercise provided the space and stimulation to throw new light on what drives peoples' behaviour. The ideas that came out of the session had a direct bearing on some of the principles that informed the project's final recommendations, for example:

- The need for training provision to be responsive to consumer need and not 'mass produced' or 'homogenous' in the way it is designed and delivered

Training isn't very 'sexy': need to focus on and sell the outcomes rather than the process. The message can be positive but can also come down to scare tactics - "train or else" - especially in terms of business innovation and competitiveness.

Strategy Skills > Building an Evidence Base

Tools & Approaches

Collecting data

- Data types & sources
- Surveys
- Interviews & focus groups

Analysing data

- Modelling
- Market analysis
- Organisational analysis

Learning from others

- International comparisons
- Benchmarking

Looking forward

- Forecasting
- Scenario development
- Counterfactual analysis

Evidence plays a central role in strategy development by helping to establish a factual understanding of the issues in hand, and by informing the selection of possible solutions with the reality check of what is likely to work.

Evidence can take many forms, but for most projects it will be based on activities including:

- analysing key patterns in sectoral data
- analysing public attitudes, behaviours and expectations
- identifying international best practice examples which can provide some guide to potential futures for the UK
- developing hypotheses about trends and causal links, and testing these hypotheses against available data.

Early links should be established with government specialists to identify the full range of **data types and sources** available and the extent of work already done on related issues. Data that is not already available may need to be collected using methods such as **surveys** or **interviews and focus groups**.

Analysing the data that has been collected in order to generate understanding and insights will form the core of the project's analytical effort. Various forms of **modelling** can be used to understand the relationships between variables, while **market analysis** and **organisational analysis** can be used to provide context for the emerging strategy.

Further context, in the form of **international comparisons** and **benchmarking,** that provides a comparison with similar policy areas or other countries, is often another useful way to identify new approaches.

Finally, the evidence base on which strategy is developed needs to not only cover the present day, but also likely future developments. **Forecasting** can be used to extrapolate current trends, **scenario development** can help identify a number of possible alternative futures, and **counterfactual analysis** can help predict what is likely to happen without change to government policy and with a continuation of expected drivers of change.

Strategy Skills > Building an Evidence Base

Collecting data - Data types & sources

> **in practice**

Strategy work needs to be informed by the highest quality and most up-to-date data and knowledge possible. Those involved in strategy work need to be aware of the breadth of data types and sources available, and be 'intelligent consumers' to know how to bring it to bear in a timely fashion to inform their thinking.

However, strategic thinking should not be paralysed by the absence of perfect information. Instead a pragmatic approach is needed to make judgements and take decisions based on the data available at the time. Stratgies need to be adaptable enough to respond to new data as it emerges.

Data Types
The broadest and perhaps most common distinction is between quantitative and qualitative data types:

- **Quantitative**: numerical data that can be measured in units – time, money, volume, percentage etc.
- **Qualitative**: descriptive data that uses words to record observations, thoughts or opinions.

Quantitative data can be generated by measurement or by asking closed questions, while qualitative data is typically generated by observation or by asking open-ended questions. While insights can be gained from isolated pieces of either quantitative or qualitative data, strategic decisions need to be based on reliably representative or statistically significant data. Specialist advice should be sought if the validity of data is in question.

Another broad distinction can be drawn between data that are:

- **Cross-sectional**: observations collected at a single point in time
- **Longitudinal**: observations collected over a period of time.

Cross-sectional data provide a snap shot, while longitudinal data allow trends to be observed over time. Longitudinal data, by its nature, takes longer to produce and is hence more costly, however it overcomes the bias inherent in cross sectional data when, for example, examining the variation in a variable with age.

Data can also be distinguished by the use to which they will be put. Typical uses of data in strategy work include measuring or describing:

- Trends – the changing state of the world over time
- Preferences – what the public and stakeholders value, and what they think about certain issues
- Finance – how much is spent, lost, earned, saved, invested etc
- Performance – the outputs or outcomes of an intervention or service
- Evaluation – how well an intervention addresses the underlying issues
- Impacts – the level and nature of unintended consequences of an intervention
- Benchmarks – how the current situation compares to other similar situations
- Forecasts – what the future may hold.

Government Specialists
To ensure that strategy work is based on the best data and knowledge available it often needs to draw on experts or specialists – either for their superior content knowledge or their skill in collecting and handling particular forms of data. There are number of specialisms within government that can provide expertise in different forms of data collection, interpretation and analysis. These include:

Economists	Economics is concerned with macro issues of the economy as a whole – inflation, interest rates, employment, taxation, government spending etc, as well as micro issues such as resources allocation, labour supply, pricing, and consumer behaviour. Much of the work of economists is concerned with bringing an analysis of these issues to bear in determining the nature of economic and social problems and their causes, establishing the rationale for government intervention and the role of markets, and designing and appraising policy options. A chief economist in each department heads the economics specialism. See the **Government Economic Service** website for details of the kind of roles that economists play in each department
Operational Researchers	Operational Research is the application of scientific methods to management problems. It aims to provide a rational basis for decision-making, by understanding and structuring complex situations. Often this involves building mathematical models to predict system behaviour and thereby assist the planning of changes to the system. Contact the **Government Operational Research Service**.
Scientists	The **Office of Science and Technology** leads for government in supporting excellent science, engineering and technology and their uses to benefit society and the economy. The OST also hosts **ForeSight** which aims to increase UK exploitation of science by either identifying potential opportunities for the economy or society from new science and technology, or considering how future science and technology could address key future challenges for society.
Social Researchers	Social research is about measuring, describing, explaining and predicting social and economic phenomena. In government, this relates to policy development, implementation and delivery and to the estimation of policy impacts and outcomes. Social research explores social and economic structures, attitudes, values and behaviours and the factors which motivate and constrain individuals and groups in society. Contact **Government Social Research**.
Statisticians	**National Statistics** provides up-to-date, comprehensive and meaningful data on the UK's economy, population and society that can be used to create evidence-based policies and monitor performance against them.

Data Sources

The data and knowledge that inform strategy development and strategic thinking can and should come from a wide range of sources. Specific arrangements may be required in each situation to benefit from more informal sources such as the first-hand experience of front life professionals, but for more systemised data, there are a large number of readily accessible sources.

Learning from experience

There are many of ways of ensuring that up-to-date data and learning from the front-line is fed back into strategic thinking, including:

- Publishing early drafts of proposals to elicit challenge and feedback
- Using pilots and controlled experiments to test out options
- Engaging stakeholder communities in ongoing dialogue
- Identifying best practice and looking for lessons that can be learned
- Encouraging horizontal networks of professionals, operating units and front-line staff to enable experience to be quickly shared
- Responding to informal information and gossip (the NASA lesson from the Shuttle disaster)
- Granting flexibility to innovate and break the rules (e.g. Health Action Zones) with "venture capital" equivalents to finance promising new ideas
- Establishing contestability in public services to encourage new entrants and innovation (as in prisons and welfare)
- Commissioning real time evaluations as well as formal ex-post evaluations

Learning from systematised data

Strategy work should make full use of the enormous volume of data that is routinely captured and systemised for publication by a wide range of institutions. Much of this data is readily accessible, often without charge via the internet. Techniques such as systematic reviews and meta-analysis (explained further

in **The Magenta Book**) are rigorous methods of consolidating what is already known about a topic, and should be explored before initiating any new systematic data capture. Useful data sources include:

Bank of England Monetary and Financial Statistics: The Bank of England publishes a large range of banking, monetary and financial statistics. Most of the series can be download as Excel files. Perhaps the most useful publication is the annual Statistics Abstract.

CIA World Factbook: CIA site providing a host of economic and other data, on a country basis. Simply click on the country.

EconData: (University of Maryland): US and international economic time series data.

EcoWin: this is a Swedish site, much of which requires registration, but it does have a free graphing facility from its databases, which cover all the major countries. The graphs are excellent and can easily be copied and pasted into PowerPoint or Word documents.

Eurostat: provides selected European Community statistics.

IMF: country reports for all countries of the world can be found on the IMF website. Three particularly useful publications are the World Economic Outlook, Annual Report and International Capital Markets. Each of these has a large statistical annex.

Financial Times: provides archive articles and statistics on a wide range of economic and business related issues.

Guide to Official Statistics: this is a directory of all statistical censuses, surveys, administrative system, publications and other services produced by government and a range of other organisations in the UK. It was produced by the former Office of National Statistics (ONS) in 2000, so may now be a little out of date.

HM Treasury: a useful source of UK data. The *Economic Data and Tools*, and the *Budget* sections are particularly useful. The *Economic Data and Tools* section contains *Latest Economic Indicators* which in addition to providing recent data releases, also contains the *Pocket Data Book*. This is a very useful monthly publication that downloads as an Excel Spreadsheet, with 28 tables containing time series data for a range of national and international indicators, going back to 1980.

Institute of Fiscal Studies: an independent research body, looking particularly at the UK tax system, considering the likely effects of fiscal policy on different sections of the population.

MIMAS (Manchester University): stores data from the 1981 and 1991 Censuses, UK government surveys, international macro-economic time series and geographical and satellite sources. Users need to register with the service.

National Statistics: National Statistics (formerly ONS) data sets are now freely available. The *Time Series Data* section of the website contains PDF versions of many documents, and downloadable Excel files of the data. Documents include: the *Blue Book*, the *Pink Book*, *Labour Market Trends*, *Scottish Economic Statistics*, *New Earnings Survey*, *Family Spending*, *Social Trends*, *Regional Trends*, *Agriculture in the UK*, the *Annual Abstract* and the *Monthly Digest of Statistics*. Tables from other publications including *Economic Trends* (Monthly and Annual Supplement) and *Financial Statistics* are also available.

OECD: provides a host of statistics on OECD countries. There is also the OECD Economic Outlook, a six-monthly publication which contains macroeconomic data for each of the 30 OECD countries, the EU15, the Euro area and the OECD as a whole. The data typically covers 20 years with forecasts ahead for the next 2 years.

Policy Library: a social, economic and foreign policy resource that covers a wide range of topics and sectors, and provides links to additional sources of information on each topic.

The Economist: the website provides archives of previous articles and special reports and surveys. The *Economic Intelligence Unit Country Briefings* also provide a good source of country information. Simply click on the country to get a selection of statistics (under Country Profile), and briefing articles.

UK Data Archive (University of Essex): contains several thousand UK, European and International data sets for the social sciences and humanities from government, academic and commercial sources. Data sets can be downloaded from the internet or ordered, although this requires registration.

World Bank Data Sets: the World Bank site contains a vast database of economic, social and other development statistics for all countries of the world. Data can be accessed by country, by topic or by using a data query (from 54 indicators, 5 years and over 200 countries.) The World Bank also publishes its annual World Development Report.

There are also a number of specialist social science databases including: Policyfile, Psyclit, Sociofile, and Social Science Abstracts. Online social science data sources include **Econlit, PAIS, EPPI-Centre Library**, the **Campbell Library**, the **Cochraine Library**, the **National Electronic Library of Health**, and the **ESRC Evidence Network**. Further detail on these sources can be found in **The Magenta Book**.

Other sources include departmental websites and libraries, which can provide departmental specific data and links to other useful sites. It can also be beneficial to search relevant academic and trade journals or magazines and visit specialist libraries.

References

Research Design, Catherine Hakim

Approaches to Social Science Research, Royce Singleton, Bruce C Straits & Margaret Miller Straits

For details of both major longitudinal and cross-sectional surveys in the UK see the **UK Data Archive** list of *Major Studies*.

Collecting data - Data types & sources

In Practice: SU Benchmarking Exercise

The SU undertook an exercise to benchmark UK performance against other developed countries across a broad spectrum of economic and social indicators. A key task in this was data collection and analysis. Our approach was to break down the exercise into several thematic, though related, strands, which each began with a somewhat informal wish list of data and evidence. One of the lessons we learnt early on, however, was that some of the desired data simply did not exist, and much of what was available needed a good deal of reconfiguring and interpretation.

For the broad range of the issues we were considering, an obvious source of national and international data was the Office of National Statistics. Alongside the ONS, we found data and information from several other Government Departments available on their web sites - some better than others, but all providing clues and leads to other potential sources.

The team also made use of a number of other sources. In particular, we found the OECD an excellent source for a broad range of international data, and similarly the European Commission. Both offered fast access to data over the internet, though a slight drawback is that much of the more detailed data and analysis produced by these organisations remains limited to subscribers only. Other sources such as the UK based National Institute of Economic and Social Research (NIESR), the World Bank, and the International Monetary Fund also proved to be good sources for comparative international data.

Alongside these sources, we found web-based searches threw up a wide variety of useful data and evidence, particularly recent academic studies, which in some cases prompted us to contact authors directly for more. Wading through internet search returns, however, proved a frustrating and time-consuming exercise at times, highlighting the importance of thinking carefully about the key words and phrases used.

Strategy Skills > Building an Evidence Base

Collecting data - Surveys

> **in practice**

Surveys are a means of developing a broad, representative understanding of a situation, social attitudes or prevalent behaviour.

It is helpful to first identify whether survey data is actually required or whether it is more appropriate to use data collected through other means such as focus groups, interviews with experts or practitioners or email discussion groups.

If a survey data is considered necessary, a search should be conducted for previous surveys that have been undertaken that could provide raw data required. The ONS's **Guide to Official Statistics** is a good starting point. If the data does already exist this would save considerable time and expense

If a survey is to be conducted, it may be necessary to commission a market research company to undertake the work. This can be particularly helpful if a large amount of data needs to be collected in a short period of time. The company will also have experience of what makes a good survey, and can feed best practice into its design. However, it will be expensive and will also take some time to tender for the job, design the survey and train the market researchers to conduct it successfully. This timing should be incorporated into the project plan.

Types of Survey Data

Most surveys contain cross-sectional data. This provides a snapshot at a point in time. A typical cross-sectional survey asks a random sample of the population the same questionnaire. As long as the sample is statistically representative, then it will give a clear guide to what answers the whole population would have given to the same questions. The larger the sample, the more confident you can be that the survey accurately represents the population's viewpoint.

Alternatively a longitudinal survey may be appropriate. These trace the same individuals over time. They may range from short-term panel studies, such as when the same people are asked the same questions before and after a big event, to comprehensive studies that track individuals – and even whole families or households – over a life-time, enabling causal links to be more confidently established than when based on one-off surveys. Longitudinal data can therefore be used to analyse the impacts of policy over time (for instance over an individual's lifetime or between generations) and also permit the analysis of how policy interventions may affect the future.

Things to consider when designing a survey

Designing a survey is a complex task and should usually be done in collaboration with a government social researcher or specialist market research firm. Before starting to design a survey, there are a number of questions that need to be considered:

- *The purpose of the survey*: a survey can either be descriptive or explanatory. A descriptive survey describes the distribution within a population of certain characteristics, attitudes or experience. An explanatory survey investigates the relationship between two or more variables. Explanatory surveys require that all variables that might be important are identified and measured during the data collection process.
- *A structured or an unstructured approach*: structured approaches are useful for hypothesis testing. Unstructured approaches are more useful for acquiring population data in an area where little research has been done.
- *Quantitative or qualitative data*: which type of data is more appropriate?

- *The "population" and "sub-groups" to be studied*: the sample to be surveyed needs to be carefully selected to ensure that the findings are similar to those found amongst your target population. There are three basic types of sampling:

    1. *Probability sampling*. This includes random sampling, systematic sampling (similar to random sampling but some element of selection e.g. every 100th person in directory), and cluster sampling (e.g. pupils in a particular school). Consideration needs to be given to the 'sampling frame' – such as the voting register, telephone book etc. If the sampling frame is biased, such as richer people being ex-directory or poorer people avoiding the voting register, then this problem will be reflected in the sample.

    2. *Non-probability sampling*. This can be useful when there is insufficient information about the population (i.e. there is uncertainty about how many people or events make up the population) or the population is intrinsically difficult to survey e.g. the homeless. Non probability sampling techniques include purposive sampling (e.g. the sample is handpicked) or snowballing (those identified for inclusion in the sample nominate others). Caution must be taken in generalising from such samples.

    3. *Stratified sampling*. This involves dividing the sampling frame into segments and 'over-sampling' sections of the population. For example, a survey might deliberately over-sample young people or ethnic minorities in order to ensure that there are sufficient in the sample to make reliable statistical comparisons. Such samples can be 're-weighted' to give averages that are representative of the whole population. Stratified sampling is usually necessary for sub group analysis.

- *Optimum sample size:* the sample size needs to be an adequate size, in order to generalise from the survey's findings. Provided that the sample size is representative of the target population, the larger the sample size, the more confident you can be that the results are an accurate reflection of the population as a whole. The key factor is the absolute size of the sample, rather than the proportion of the population that gets included in the sample. Adequate samples can be estimated from the expected variation in the major variables of interest, and will therefore depend on the specific question or hypothesis to be tested. As a general rule of thumb, adequate samples will generally involve more than 30 events or people. Most market research companies use samples of around 1000-2000. However, other factors to consider when deciding on the sample size include the likely response rate, the desired level of accuracy, sub-divisions in the data etc. For example, if the survey seeks to discover not only the general attitude towards an issue, but also that of married men under 40, single parents etc, then a larger sample will be needed. Advice from a statistician or social researcher will help to ensure that the chosen sample size will yield reliable and relevant data.

- *Data collection method:* there are a variety of different methods for actually collecting survey data. Each has pros and cons:

    1. self-completion postal questionnaires: this can be expensive and the typically low response rates, can result is a selection bias and hence doubt in the validity of the findings.

    2. face to face interviews*:* market researchers may approach people in the street, or call at people's homes. On other occasions contact will be made in advance by phone or letter. Response rate is usually higher than for postal surveys but face to face interviews tend to be more expensive. Decisions will need to be made about whether the interviews are to be structured, unstructured or partially structured.

    3. telephone interviews: these are quicker and cheaper than face to face interviews, but have the highest non-response rate because people are less inhibited about saying no over the phone.

Checklist for Designing a Survey or Questionnaire

1. Wording of the questions:

- Style of question should be suited to target group e.g. children or professionals. The table below provides some alternative styles.
- Respondents should only be required to answer about themselves, not others
- Avoid the use of leading questions

- Avoid asking the same question twice in different ways
- Avoid double barrelled questions
- Avoid double negatives
- Beware of ambiguous terms (e.g. lunch versus dinner)
- Make sure the wording is unambiguous and avoid jargon
- Keep questions short and straightforward

Type	Example
A Statement	What do you think about the UK's membership of the European Union?
A list	Please list the issues you feel are most important in relation to the UK's membership of the EU
Yes/No answer	Have you travelled from the UK to another European country in the past 12 months? Yes / No
Agree/disagree with a statement	Would you agree or disagree with the following statement? "European economic unity carries economic advantages which outweigh the political disadvantages". Agree / Disagree / Don't Know
Choose from a list of options	Which ONE of the following list of European countries do you feel has the strongest economy? • France • Germany • Italy • Spain
Rank Order	From the following list of European countries choose THREE which you feel have the strongest economies and put them in rank order. 1= strongest, 2=strongest, 3 third strongest • France • Germany • Italy • Spain • Portugal
Degree of agreement and disagreement: the Likert scale	Membership of the EU is a bad thing for the UK Strongly Agree | Agree | Neither Agree nor Disagree | Disagree | Strongly Disagree
Rate Items	How significant would you rate the following factors in affecting further European integration? Very Significant — Not Significant Political Sovereignty: 1 2 3 4 5 6 7

2. Are the questions in the right order?
   - Getting the question order right will help the interview to flow.
   - Remember that the nature of the previous question can affect answers.

3. Is the layout of the survey form/questionnaire clear?

4. Is the instruction to respondents clear?

5. Has a cover sheet been produced explaining purpose, return date, confidentiality, thanks etc?

6. Has access been granted from:

- appropriate authorities
- respondents.

7. Has time been scheduled for:

- designing and production of an initial draft
- application for ethical committee approval and subsequent response
- piloting of an initial draft? Design of a subsequent draft
- the production of the subsequent draft
- numbering of questions
- respondents to complete the questionnaire
- pursuit of non-respondents
- collection and checking of questionnaires
- data preparation for analysis
- analysis of the results.

Presentation of Survey Data

There are a number of tools that can help present survey data in a form that is easily understandable. They can be used to isolate important basic relationships, for example to understand any absolute differences in experiences of different population groups or sub-groups.

- Data can be presented in the form of a graph or table, for example a frequency table, block diagram, pie chart, frequency distribution or a histogram.
- Distribution and dispersion diagrams can be used to illustrate such concepts as the arithmetic mean and standard deviation.
- Descriptive statistics can be helpful in analysing data including the mean, maximum observation, minimum observation and other measures that describe how data looks.

Particular Types of Surveys

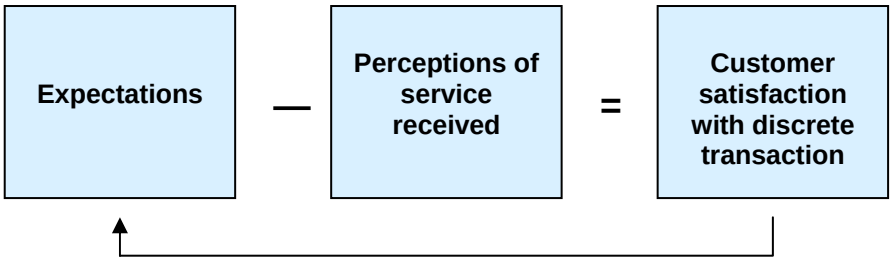
There are a number of survey types that are useful for public sector strategy work. These include:

- Customer Satisfaction Surveys
- Customer Priorities Surveys.

Customer Satisfaction Surveys

The level of satisfaction or dissatisfaction that results from an encounter between a service user and provider depends both on the user's *expectations of the service* they will receive and their *perceptions of the service* they have received. The leading model for thinking about satisfaction and perceptions of service quality focuses on whether the customer's expectations are "confirmed" or "disconfirmed" by their perceptions of the service they have received (see figure below). If a user's expectations are exceeded by their perceptions of the service they have received then the user is satisfied or even delighted. If their perceptions of the service fall short of their expectations then the result is dissatisfaction.

"Disconfirmation" model of Satisfaction



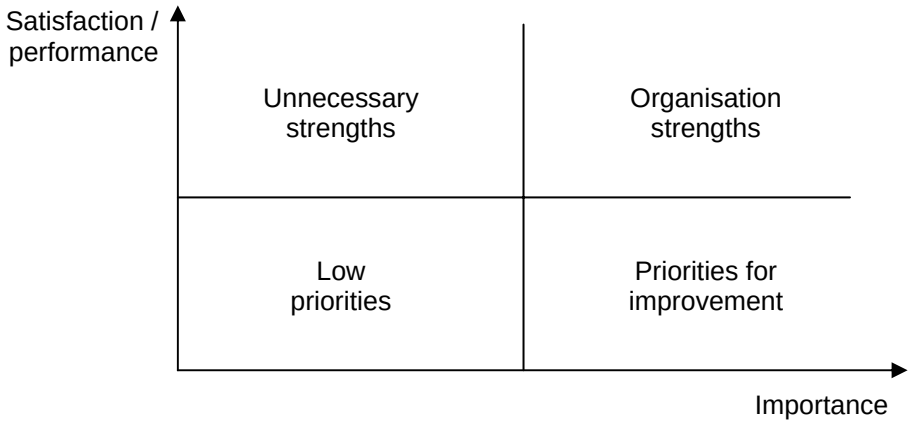
Expectations can be shaped by a number of factors:

- **Personal needs**. Each user of a public service will have individual needs that they expect to be met. This will vary from service to service and from customer to customer.
- **Previous experience** shapes expectations. For example, if someone has received excellent care from one GP they may have high expectations of another GP.
- **Word of mouth and media communication.** The experience of friends and family and the opinions of those in the media can be important in shaping expectations about the service.
- **Explicit service communications.** Printed material and statements from staff can have a direct impact on expectations. It is sometimes important to give a realistic assessment of the service the user might receive rather than raise expectations too high.
- **Implicit service communications.** For example, the physical appearance of buildings can be taken as a guide to the quality of services inside.
- **Service reputation.** The reputation of the wider service can raise or lower expectations about a single service encounter. Service reputation is determined by individual's perceptions of the their experience, the media and the reputation of the government.
- **Personal beliefs and values**. Expectations may also be shaped by people's personal values. For example, strong supporters of public services may be more forgiving of poor service.
- **Nature of client group**. It is thought that the social class, age and ethnicity of the client group tend to strongly influence people's expectations. For example, older people are consistently more satisfied with the health service, while richer people are less satisfied. It is thought that part of the explanation lies in the differing expectations of the better off and the elderly.

Similarly the perceptions of the service received by the user may depend upon a variety of factors including: access, aesthetics, attentiveness, availability, care, cleanliness, comfort, commitment, communication, competence, courtesy, flexibility, friendliness, functionality, integrity, reliability, responsiveness and security.

The 'in practice' example shows how the Communidad de Madrid conducted a gap analysis using this technique to drive service improvements.

Customer Priorities Survey
This approach enables satisfaction with different aspects of a service to be directly compared to the importance the customer attaches to each of them. By mapping satisfaction against importance areas of the service most in need of improvement can be identified. As can be seen in the figure below, the service provider can identify and focus action upon elements falling into the bottom right quadrant.



This approach can be applied at several levels:

- Inter-service priorities. To compare public priorities between different services.
- Intra-service priorities. To determine which aspects of a service are priorities for improvement. For example, existing surveys ask about importance of various factors. For General Practitioners the appointments system is one of the main areas of dissatisfaction mentioned to be in need of improvement.

Strengths

- A breadth of issues can be covered in a survey.
- Providing the sampling is sound, it should be possible to generalise the findings.
- Lends itself to quantitative data.
- Can assess how far the methods used are replicable (precise), accurate (approximate the true value of the quantity sought), and valid (represent the variable to be quantified).
- Gap analysis allows both individual aspects of a service encounter to be analysed separately and perceptions of the service overall to be measured. Thus individual aspects of the service (say, staff friendliness) can be isolated and singled out for improvement.

Weaknesses

- Data produced can lack the depth, detail and colour of, for instance, the case study approach.
- Difficult to check accuracy of responses or follow-up ideas, although cross-validation can be conducted (such as objective measures on a sub-sample).
- Causal inferences from survey (explanatory) research are generally less reliable than from experiments.
- Individuals are very different and may come to a service with very different expectations – for example more deferential people may arrive with lower expectations than those with more assertive personalities.
- In judging the overall service encounter different aspects of the service may differ in their importance for the consumer – for example in one service reliability might be more important than responsiveness, while in another reliability might be expected and therefore discounted by the service user. This can be handled through weighting different factors.

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Collecting data - Surveys

In Practice 1: SU Alcohol Misuse Project

Studies of a small number of hospital Accident and Emergency Departments have suggested that alcohol is associated with a large number of visits, particularly at weekends, but there has been no well-validated nationally representative study of the burden imposed by alcohol on A&E services. To address this gap, the alcohol project commissioned two surveys.

Study 1: The first was a questionnaire-based survey contracted through the Health Development Agency to MORI. This cross-sectional survey covered all 224 A&E departments in England. This was designed broadly to replicate the first such survey in 1997. As coverage was intended to be 100%, sampling issues were not raised. The aim was to quantify use of different procedures for recording and handling alcohol-related cases (coding schemes, diagnostic categories, types of intervention), the perceived prevalence of such cases, the major difficulties posed by such cases, and to identify possible future improvements to provision. The questionnaire was sent to one clinical director and one nursing director in each department. Initial response rates both in 1997 and 2002 were around 20%, as expected. Non-respondents were subsequently contacted directly by telephone, raising the response rate to 61%.

Study 2: The second survey was a single 24-hour "census" of a nationally representative sample of A&E departments on a fixed date. This was designed to test three hypotheses:

- Alcohol related A&E attendances will be associated with violence and assault incidents
- Regional variations in alcohol-related A&E attendances will be related to regional general population prevalence of excessive drinking and alcohol misuse
- Higher levels of alcohol-related A&E attendances will be associated with higher levels of violent incidents towards A&E staff

This survey was commissioned from a leading authority in a major medical school. Sampling was based on the need to test for a statistically significant difference in the prevalence of alcohol-related A&E attendances by men between the regions of England. The desired sample size of cases in each region was estimated on the assumption that in each region the proportion of A&E cases which were alcohol-related would be similar to the prevalence of excessive drinking by men reported in the year 2000 General Household Survey. The maximum regional prevalence was 25%, the minimum 17%.

To detect a significant difference between two independent proportions, the required number of cases in each population was estimated using a sampling formula. This was done by the survey specialist advising the team.

A&E departments were selected by random sampling from the national list stratified by the 9 Government Office Regions and by urban/rural catchment area. The survey was planned to be undertaken through direct interview by research nursing staff trained specifically for this purpose. The questions were designed to establish:

- whether alcohol has been consumed in the past 24 hours
- where and when the last drink was consumed
- whether the attendance was related to a violent incident
- whether the patient had been a victim of violence or not
- where and when the violent incident had occurred
- any category of criminal offence related to the attendance
- whether an injury has been sustained and if so the nature of the injury
- reported hazardous drinking in the past year using an established questionnaire anonymised to protect confidentiality

A breath sample indicating alcohol level was included to provide an objective assessment of alcohol intoxication. Each A&E department was asked to report any verbally or physically violent incidents in A&E during the 24hr census period.

Studies 1 and 2 were linked in that the second survey's breath test measurements were intended to validate staff perceptions of the prevalence of alcohol-related cases as determined by the first survey. However, study 2 was not solely a validation exercise.

Hospitals are in many respects autonomous. Research surveys of patients generally required the permission of hospital ethics committees. Ethics committees often raised issues about the proposed studies including concerns about whether individual respondents can be identified from data records, and the preservation of respondents' confidentiality. This process took considerable time and needed to be factored into the research commissioning process. Where several hospitals were involved, as in the case of the second survey, multiple centre research ethics committee (MREC) permission was sought to avoid the need to approach each hospital separately, which could have taken considerable time.

Collecting data - Surveys

In Practice 2: Gap Analysis - Communidad de Madrid

The "Comunidad de Madrid" is one of the 17 regional governments in Spain. In 1995 it decided to implement a quality plan based upon the disconfirmation model of satisfaction. The Comunidad de Madrid measured both the satisfaction of its citizens as well as the satisfaction of the clients of its public services.

The Comunidad de Madrid has developed and registered its own satisfaction measurement model called CAL-MA (Calidad-Madrid: Quality-Madrid). CAL-MA is based upon the concept of a service quality "gap": between expectations and perceptions of service. The gap (usually negative) is taken to be the scope for improvement. Surveys are carried out every year on different representative samples of clients. Measurement of expectations takes place separately from that of perceptions of the service.

For further details see: **La Calidad del Servicio Publico' 1999** Comunidad de Madrid.

Strategy Skills > Building an Evidence Base

Collecting data - Interviews & focus groups

> **in practice**

The aim of these tools is to get a better understanding of the preferences, needs, expectations and experience of citizens, customers or business people, and how different policy options might impact upon these groups. Both interviews and focus groups are an excellent way of getting a "real world" view on a particular issue.

Interviews

During the "Set up" phase of the project, interviews with key policy makers in government and selected stakeholders can provide important insights; for example, into the nature of the problem, work underway and the further work required.

During the analytical phase of the project, more comprehensive in-depth interviews with a broader group of stakeholders including academics and researchers will be required. These interviews will focus not only on the nature of the problem but causes, prospects for change and the feasibility of possible solutions. The aim of the interview is to guide the discussion enough to focus on a topic of interest whilst giving the respondents sufficient scope to steer the conversation to bring in all sorts of tangential matters.

It will be helpful to develop a list of the key questions to cover at such interviews, particularly if they are being conducted by different members of the project team. It will also be important to write detailed interview notes to be kept on the shared drive, to enable all team members to benefit from the discussion.

The project team may decide to commission papers or research from selected interviewees following these interviews.

Focus Groups

Focus groups entail structured interviews with a small number of consumers to explore a particular issue or policy, or to seek views on areas of concern. Focus groups are generally considered to be a 'qualitative' method – exploring a small number of people's views and feelings in-depth, as opposed to large scale surveys that ask large numbers of people identical questions and that are more suitable to quantitative analysis.

Generally, projects will want to use a number of groups, with different consumer segments, to test how different groups feel or will react.

The process typically involves:

- Specifying what is required and selecting a specialist facilitator
- Deciding on the target groups and how these should be segmented (e.g. by gender, socio-economic group, work – e.g. single mothers, young people, small businesses)
- Producing supporting material for focus groups that can help clarify policy options and developments and help people easily visualise the proposals
- Following the focus groups, a follow-up discussion with the researchers is useful, and the final report then needs to bring out the most salient issues.

Alternatives to focus groups include:

- market research surveys e.g. British Social Attitudes Surveys
- modelling at the individual consumer level e.g. representative journeys for FSU transport review

- 'ghost shoppers' e.g. researchers or actors directly experiencing services - used by the Consumer Association
- role playing
- event diaries e.g. National Travel Survey based upon travel diaries.

It is important to be very clear about the purposes of the exercise – what evidence the focus groups are looking to collect, how the event can be tailored to the participants while maintaining analytical rigour and how to prime the groups. Consideration should also be given to which social groups need to be consulted, how broad the consultation should be and how the groups will be managed and facilitated.

A useful first step is to design some **scenarios** for the groups to consider – this is a useful exercise to organise the team's own thoughts, and will help to design the consultation, and provide a clear view of what the groups should focus on. Scenarios also offer the opportunity to be creative – they can set out existing practices or problems, but they can also be used to pose some hypothetical questions.

It is also useful to consider using external expertise to organise, host and facilitate the groups – MORI and others have good expertise in this area. If an external consultant is involved, consideration should be given to how the results should be presented back – either as a factual report, a presentation, a report with suggested solutions to problems posed etc. It can be better to simply get a factual read-out as this leaves more scope for the team to interpret the findings for themselves and design creative solutions.

Strengths

- Interviews give an insight into problem from a range of perspectives.
- Stakeholders can act as sounding boards and provide a reality check.
- Can generate new ideas and hypotheses, and can challenge prior assumptions of policy-makers about public attitudes.
- Provides insights for policy making by indicating some of the drawbacks of existing arrangements or potential new policies.
- Gives a more considered view than conventional surveys, in a more natural 'conversation' with other members of the public.
- Understanding motivation.
- Relatively cheap.

Weaknesses

- Time-consuming.
- Stakeholders may try to apply pressure through lobbying.
- Views from selected frontline organisations will be based on individuals' experiences and may not always be representative. Therefore conclusions need to be assessed in the light of other evidence.
- Be aware of limitations: focus group participants won't have a policy background (obviously) and won't be able to discuss detailed policy issues. Focus groups may not throw up many new ideas or produce very rational discussion (though useful to be aware of the apparent contradictions in consumers' views) and results may not be of too much help to the project.
- As the focus groups tend to involve small numbers they may not be representative of the wider population, or even of the narrower population from which they are drawn. A single focus group per consumer segment/policy issue means that any differences between groups may not be robust and caution should be taken over wider inferences.

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Collecting data - Interviews & focus groups

In Practice 1: SU Modernising the Post Office Project

In order to develop an understanding of the Post Office network's business - including the size and shape of the network, the outlets and the people who run them, the network's products, services and customers - the team:

- Had extensive discussions with people within the Post Office, drawing on their existing research and knowledge and commissioning new analyses from them where necessary. These discussions took place with field staff as well as headquarters' staff.
- Visited post offices and talked to the people who ran them. The team visited post offices in south and north London, Leicester, Lincolnshire, Gloucestershire, Scotland, Wales and Northern Ireland.
- Spoke to clients of the Post Office about their use of the Post Office network and their future strategy.
- Consulted business experts about potential business opportunities.

Collecting data - Interviews & focus groups

In Practice 2: SU Workforce Development Project

The project used a variety of models:

- Commissioning two focus groups, one of individuals and one of small businesses, from MORI. These were run at two stages of the project, in May to garner attitudes and in July to try out policy ideas. MORI were selected by open tender. They set up and ran the groups, producing a summary and a full written report; oral briefings were also on offer (at a price). The Groups provided good output both in terms of quotes and more general analysis.
- A regional focus group run by an independent consultant in Doncaster. Deliberately commissioned to bring together a mix of employers and providers. Good across the piece input giving a snapshot of attitudes and, importantly, how policies were working out at ground level.
- Various groups ad hoc, particularly small businesses.
- 'Mystery shopping' by team members tested information and advice services. This was highly effective, although the team needed to be clear on the 'cover story'. The findings had a significant impact on subsequent policy.

Strategy Skills > Building an Evidence Base

Analysing data - Modelling

> **in practice**

Modelling is a very useful analytical tool that aims to establish formal mathematical relationships between variables. Models can take a variety of forms, and it is important to select the right model for the circumstances:

- In some situations, the variables and issues of interest can be narrowly and tightly defined, in which case the model should in turn be narrow in its coverage, but detailed within its boundaries.
- In other circumstances, variables and issues of interest may go much wider (e.g. impact on the whole economy), in which case the model will inevitably be less detailed, but with much wider coverage.

Another choice to be made will be with regard to the degree of quantification. Is it necessary to determine the amount of an impact, and can the data tell us this information? Or is a qualitative indication of impact (i.e. direction of effect) sufficient?

Once the right type and level of model has been selected, the key is then to understand the model's structure:

- If the modelling work is going to be carried out in-house, an appropriate functional form will need to be decided and the necessary data collected.
- Models will often be "bought in" from outside, rather than developed in-house. But this should never be an excuse for simply treating them as a "black box", without understanding what makes them tick. It is vital to understand why/how models produce the results they do, always ask: Which variables in the model are driving the results obtained?

In either case, it will be important to get a good feel for the key determinants of the model's results, so that they can be used appropriately and intelligently. For example, is the model based on relationships estimated on historic data? Or does it use survey data? To what extent does it incorporate behavioural change?

Modelling Tips

- Modelling is not just data mining, it needs to be based on theoretical foundations.
- Sensitivity analysis (i.e. assessing the impact of varying assumptions or variables) is useful in understanding what drives a model's results.
- Need clarity about what is endogenous and what is exogenous to the model.
- A rich data set is needed to construct a robust model.
- Modelling can be very time and resource intensive - hence the likelihood of choosing to buy-in existing models.

Excel Modelling

Modelling in Excel is like any other piece of analysis - you require a clear understanding of the questions at hand, a vision of the output, a good plan to get there, time to work through the plan to completion and the ability to package the analysis for review. Failure to do so will almost certainly result in the need for rework, lost time and frustration.

There are a number of steps, which if followed, will assist in creating a successful Excel model.

Step One: Define the problem explicitly
Ask yourself:

- What are the questions I need to answer?
- Conceptually, how do I answer each of the questions?
- What will the final output look like?

Step Two: Understand the audience
Determine who the target audience will be and keep in mind their background when preparing data to share. Pre-empting your audience and their needs, and designing Excel and other output to suit those needs will save 'low-value' added time repackaging output.

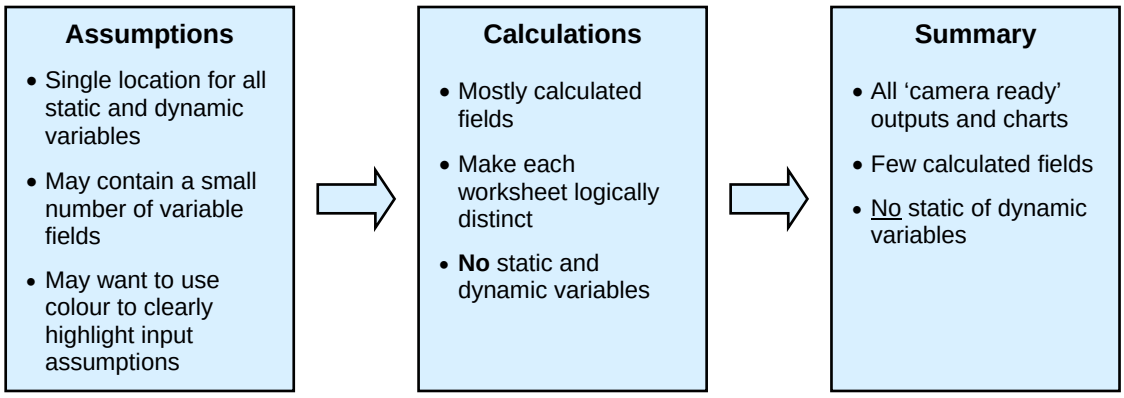
Step Three: Design, don't type
Having now envisaged the output and understood your audience, think about how to design your Excel analysis to best meet those aspirations:

- Spend the time up front to design the spreadsheet
- If necessary, write a brief work plan
- Ask yourself: how accurate does the analysis have to be? How long do I have to generate the model?
- Design the spreadsheet workbook
- Always have an assumptions sheet, this will help with sensitivity analysis
- Make other sheets flow logically from the assumptions sheet
- Sketch out a classification of variables:
  - Static variable: variable that is unlikely to change.
  - Dynamic variable: variable that you do not know accurately and you are likely to want to test the sensitivity to a range of the variable
  - Calculated fields: variables that are derived as a direct result of static and dynamic variables

First, it will be useful to classify variables according to type which will then help in writing the model, for example:

Variable	**Type**
Household density	Dynamic
Store reach	Static
Number of households per store	Calculated
Household penetration	Dynamic
Annual spend per customer	Static
Annual revenue per store	Calculated
Gross margin	Static
Annual fixed costs	Static
Annual profits	Calculated
Initial investment	Static
NPV period	Static
Discount rate	Static
NPV	Calculated

Secondly, laying-out a workbook design will save you time in writing the model in Excel. In general, Excel workbooks should follow this generic design:



Step Four: Document your spreadsheets
It is very important to document the model as it is built. Such documentation will include information about sources of data or estimates, comments on non-obvious calculations and anything else pertinent. Any one looking at the model tomorrow or in six months time will find good documentation on the spreadsheets extremely useful.

The basic rule here is that your spreadsheets should be self-documenting as much as possible. One way to test whether you have sufficient documentation as you go along is to ask the question "If my team leader had to take over my analysis tomorrow, could they understand what I've done?".

There are two major alternatives for documenting spreadsheets, using either:

- An additional Excel column
- Comments attached to the cells

Alternative	Advantages	Disadvantages
Excel column	Easy to see, so when an assumption changes more likely to change the note as well Documents the spreadsheet when printed - can hide the column/set out of print area not required	Can feel intrusive - gets in the way Easy to forget to update columns when hidden
Comment	Discreet - less intrusive when using the spreadsheet	Easy to forget to update

In some cases, it may also be necessary to write additional documentation in MS Word or MS PowerPoint.

Step Five: Use variables, never hardcode

- By defining the variables up front and create the assumptions sheet you will have fewer problems when changing variable values
- As you type a number into any formula, ask yourself:
  - "Is this number likely to change...ever?"
  - "Will I know what the number refers to in a year's time?"
- Rarely is it beneficial to hardcode variables into formulae.
- Do not paste values as this significantly diminishes your audit trail.

Step Six: Check answers – do they make sense?
Having built your model and produced some answers, don't show them yet to anyone. Instead, stop and sanity check them yourself. Ask yourself these questions:

- Is the answer what you would expect?
- Is this what your audience would expect?
- If not, what drives the different answer – can you explain the differences to yourself and your audience?

- Are the units correct?

Step Seven: Let Excel make your life easier
Microsoft Excel has a number of features that make analysis easier to navigate and complete:

- Sorting
- Functions
  - Aggregation (SUM, AVERAGE, MIN, MAX)
  - Conditional (IF, AND, OR, Nested IF)
  - Lookup Values (VLOOKUP, HLOOKUP)
  - SUMPRODUCT
  - Table command
  - Financial functions
- Manipulating data strings
  - Using formulas (LEN, LEFT, RIGHT, MID, SEARCH, TRIM, CONCATENATE)
  - Converting text to columns
- Formatting cells
- Pivot tables
- Conditional formatting.

Step Eight: Understand the sensitivities
Having built the model and development output, understand the sensitivities of the output to key input variables. To do this, undertake three key steps:

- Determine the range of valid values for each variable
- Test impact by changing each variable on its own
- Test impact by changing combinations of variables.

A good first pass of the two tests is to change the values of the variables in the assumptions sheet to their maximums and minimums.

Step Nine: Presenting the Results
Much of the impact of analysis can be lost if it is presented badly. In particular, complex modelling with many variables and sub-analyses can easily become confusing and lose credibility unless presented logically and sequentially. Think very carefully about the story the analysis tells. Transparency is crucial, as much discussion will be held over assumptions in the model.

A typical presentation to explain an Excel model would cover:

- Overall objective of the model
- What the model can and can't do
- A schematic overview of how the model works
- The key data sources
- How logic of how the variables are combined to produce the outputs
- The key inputs, the value of each and the rationale for this value
- The key assumptions, the value of each and the rationale for this value.

Econometric Modelling
This is the application of mathematical and statistical techniques to economic and social problems. Econometric studies proceed by formulating a mathematical model, then, using the best data available, statistical methods are used to obtain estimates of the parameters in the model. Methods of statistical interference are then used to decide whether the hypothesis underlying the model can be rejected or not. Econometrics is thus concerned with testing the validity of economic and social theories and providing the means of making quantitative predictions.

Regression analysis is a major tool of econometrics. It permits different hypotheses to be tested about the forms of the relationship and the variables that should be included in it.

Regression analysis is used to determine relationships between variables that analysts believe intuitively to be related. Once a relationship is established, it can be used to forecast the outcome. In business, regression analysis is often used to examine the relationship between:

- Sales, price, promotion and market factors
- Production costs to production volumes

It is equally useful to policy makers as illustrated in the 'in practice' example. See **BMJ.com** for more detailed guidance on how to use these techniques.

Strengths

- There are a variety of different tools with which to conduct data analysis. The key is to keep focused on the specific question/task, and not allow the focus of the analysis to stray.
- Modelling can provide a clear structure for the analysis, which can help create buy-in to the process from other government departments.
- Modelling allows examination of a range of factors, all operating at once. It investigates the strength of these factors and their interaction, and generates robust quantitative evidence.

Weaknesses

- A strong end-user focus is needed to avoid becoming too bogged down in technical issues.
- Analysis may suffer from a lack of available data.
- Modelling work often has to deal with numerous uncertainties surrounding data and assumptions. A pitfall to be avoided is to try and hide these weaknesses within coding in the model to try and make the results appear more robust. It is important to be transparent about all the data and assumptions, and to be aware of the degree of accuracy required by the results in order to reach a robust conclusion.

References

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Analysing data - Modelling

In Practice: SU Ethnic Minorities and the Labour Market Project

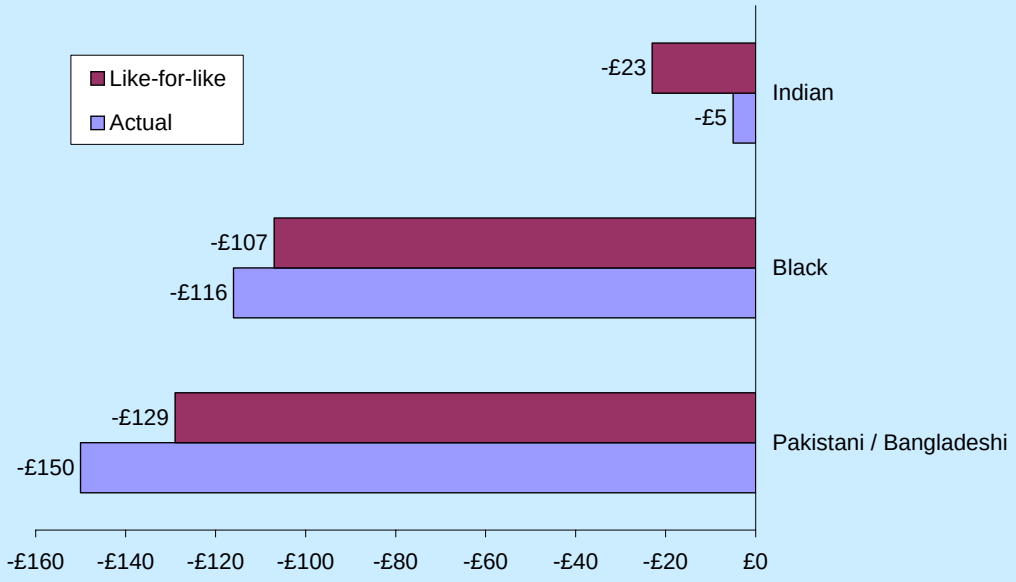
Understanding the drivers of performance and progression in the workplace was crucial to the SU's 'Ethnic Minorities and the Labour Market' project. Equally important, however, was gaining an understanding of the various factors impeding success in the workplace, from educational under-attainment and socio-economic disadvantage to residence in inner urban areas and limited experience in the labour market.

The team used regression analysis to compare the relative strength of each of these, and other, factors in accounting for the disadvantage experienced by Britain's ethnic minority groups. A number of regression models were used, each of which took account of a different combination of these conditioning factors. An examination of several of the models led the team to conclude that:

- ethnic minorities remain disadvantaged in terms of employment and occupational attainment even after key variables are taken into account. Some groups are clearly even more disadvantaged than gross differences suggest, given their educational qualifications or other characteristics;
- ethnic minority men have been persistently disadvantaged in terms of earnings. British-born ethnic minority women appear to be no longer disadvantaged in terms of earnings, though their foreign-born peers continue to be disadvantaged;
- Indian men are consistently the least disadvantaged among ethnic minority groups; and
- Pakistani, Bangladeshi and Black men and women are consistently among the most disadvantaged.

The most important conclusion that emerges from these analyses is that, even after accounting for key variables, all ethnic minority groups are disadvantaged relative to Whites in comparable circumstances. The figures below illustrate this fact, showing the earnings and unemployment risk of ethnic minority men relative to their White peers, before ('Actual') and after ('Like-for-like') taking into account factors such as age, education, recency of migration, economic environment and family structure. Together, these variables can explain just £10 of the £116 wage gap between Blacks and Whites.

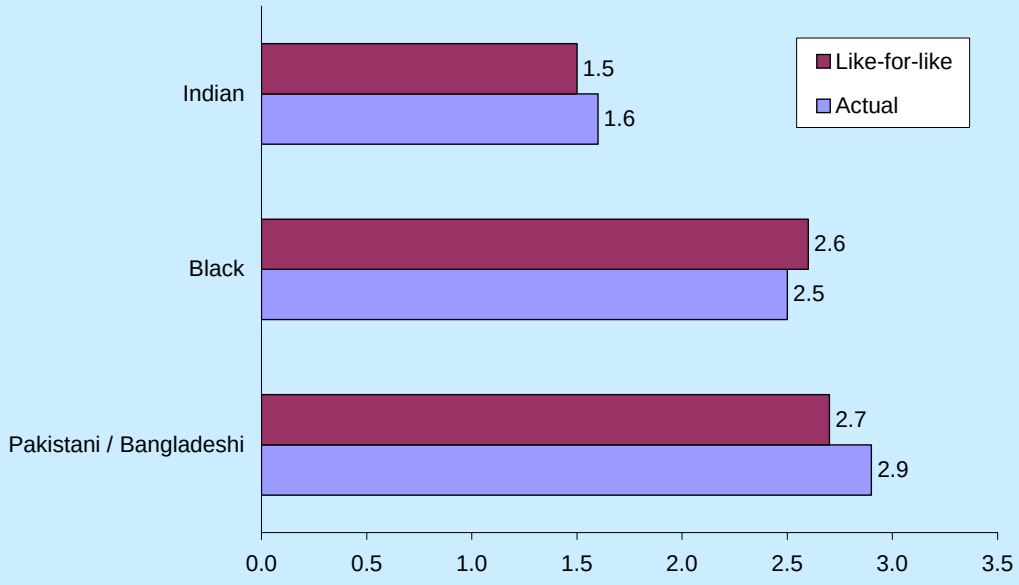
Figure 1: Weekly Male Earnings Relative to White Counterpart



Source: R. Berthoud 'Ethnic Employment Penalties in Britain', Journal of Ethnic and Migration Studies*, 26:389-416, 2000.*

Note: Figure combines the effects of unemployment and of pay

Figure 2: Male Unemployment Risk Relative to White Counterpart



Source: F. Carmichael and R. Woods, 'Ethnic penalties in unemployment and occupational attainment: evidence for Britain'. International Review of Applied Economics 14: 71-98, 2000.

It follows from such analysis that a range of other explanatory factors must be at work. These may include: degree of assimilation; cultural/religious factors; business opportunities in the areas where ethnic minorities live; Government infrastructure in local regions; quality and location of housing; access to childcare; quality of, and willingness to use, transportation to access employment opportunities; levels of, or access to, social capital; and employer discrimination. However, due to the absence of quantitative measures for such factors, in statistical terms we are left with an incomplete picture of their relative weight.

Strategy Skills > Building an Evidence Base

Analysing data - Market analysis

> **in practice**

Market analysis aims to provide:

- Insights into and understanding of industry and departmental positions
- Knowledge of the likely impact of various policy actions on departments and industry structure
- Understanding of likely international reactions and reactions of private and voluntary sector to changes.

There are a number of different frameworks that can be used for market or industry analysis:

- Structure, Conduct, Performance
- Forces at Work
- Cost Structure Analysis

Structure, Conduct, Performance

This can be used to analyse different components (e.g. demand or supply chain economics) of industry structure and their impact on the conduct of private and public sector players in the sector.

It is mainly used for strategy studies where it is important to understand the industry dynamics and how government and the private sector interact. The analysis needs to consider a number of different elements when analysing structure, conduct and performance.

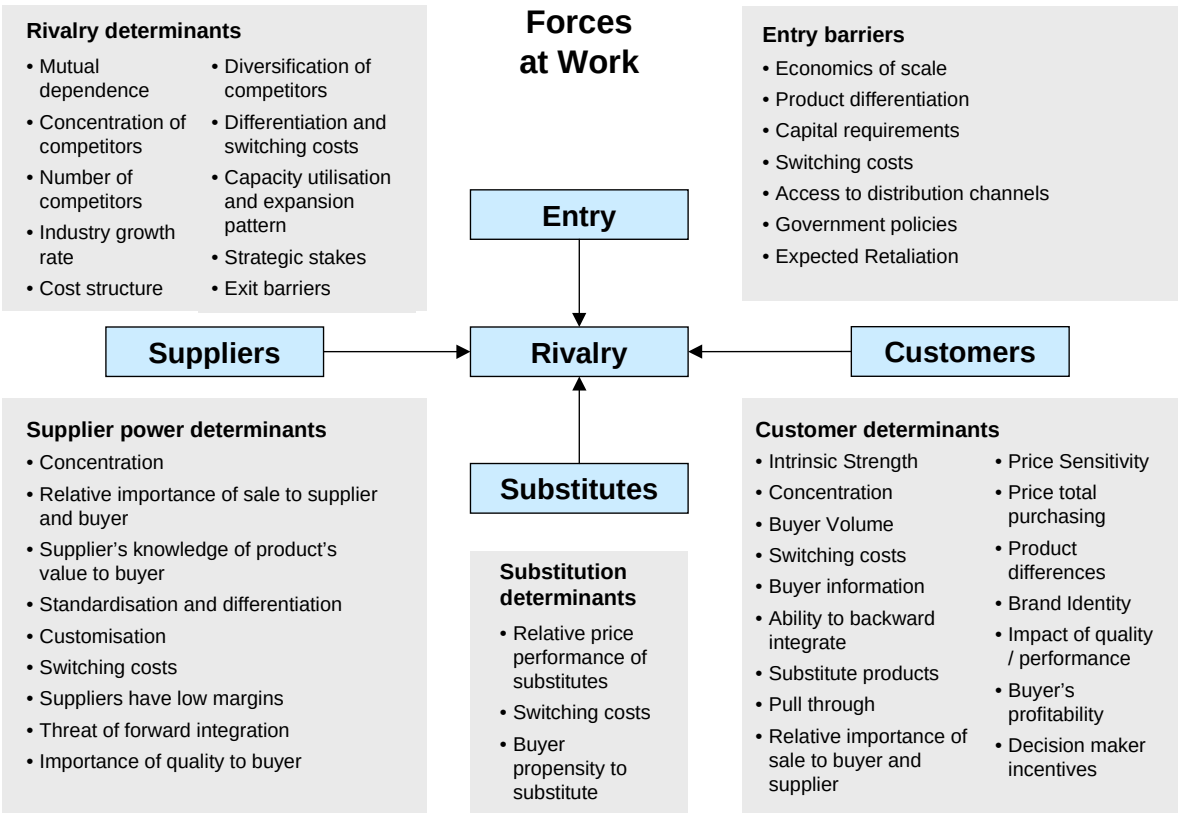
Shock	Structure	Conduct	Performance
Technology breakthroughs Changes in government policy or regulation Changes in tastes/lifestyle	**Economics of demand** • Market failures • Availability of substitutes • Differentiation of services • Rate of growth **Economics of supply** • Private v public supply • Market failures • Diversity of producers • Fixed/variable cost structure • Technological opportunities **Chain economics** • Bargaining power of input suppliers • Bargaining power of customers • Information market failure • Vertical market failure	**Marketing** • Pricing • Promotion • Distribution **Capacity change** • Expansion/contraction **Vertical integration** • Contract out • Joint ventures • PPP **Internal efficiency** • Cost control • Logistics • Organisation effectiveness	PSA attainment Social welfare Technological progress

The key steps to conducting an industry analysis set out below:

Steps	Determine what to look for	Desk and field data collection	Interpret data in industry analysis
Key Features	• Focus on major issues • Avoid looking for 'anything about the industry' • Start with overview information • Only get raw data once issues identified • Most use if done early in study	Gather overview data first: • Identify key industry players • Look for industry studies • Consult private sector company reports • Consult public sector reports • Consult with department and external experts Other published information: • Smart use of search engines • Trade associations • Trade magazines • Business press • International government sources	• Examine which of the elements are unusual or particularly influential

Forces at Work

This model presents an alternative for structuring industry assessments based on the suppliers, new entrants, buyers, substitutes and industry competitors:



The forces at work model provides a comprehensive checklist for analysing the structure of industries and sectors. The framework should not be used just to give a snapshot in time. It is important not just to describe the forces, but also to understand their future impact.

The five forces are not independent of each other. Pressures from one direction can trigger changes in another. For example, potential new entrants finding themselves blocked may find new routes to market by bypassing traditional distribution channels and selling directly to consumers.

The Five Forces Framework can be used to gain insights into the forces at work in the industry or environment, which need particular attention in the development of strategy. It is important to use the framework for more than simply listing the forces. The following questions help focus on the implications of these forces:

- What are the key forces at work in the environment? These will differ by type of industry.
- What are the underlying forces in the macro-environment that are driving these forces? For example, lower labour costs for software and service operators in India are both an opportunity and a threat to European and US companies.
- Is it likely that the forces will change, and if so, how?
- How do particular industries/departments stand in relation to these competitive forces? What are their strengths and weaknesses in relation to the key forces at work?
- What can we do to influence forces?

Cost Structure Analysis

Cost structure analysis can help provide answers to questions such as:

- Is the good/service inherently expensive to supply, or might market conditions (excess demand and/or lack of competition) be pushing cost higher?
- How do costs behave as a supplier scales upwards? For example, are (dis)economies of scale experienced, are there stepped costs (e.g. in the case of telecoms networks as significant additional investment is needed to push capacity past certain thresholds)?
- Is the supply of the good/service dominated by fixed or variable costs?
- What sunk costs are incurred in setting up supply? Will these sunk costs limit new entrants and/or form the basis for games by incumbents?

Crucially, an understanding of such issues will provide insight as to how suppliers behave in the market, and how they might react to changes in government involvement – e.g. via subsidies and regulation. As such, cost analysis can suggest policy responses and help to predict the outcome of different policies.

Cost structure analysis forms one half of business modelling and profitability analysis. Such an approach enables a full break-out of cost and revenue drivers and allows an analysis of profitability by customer, type of good/service or division. In policy making terms, for example, this might mean the ability to estimate profitability by different types of Post Office customer, or the likely sustainability of childcare provision in different areas.

Steps to take:

Define cost buckets	Gather evidence	Construct spreadsheet model	Investigate sensitivities	Sense check
• Break costs into mutually exclusive buckets • Define a useful split • Refer to the issue tree for guidance	• Gather management account, business plans, annual reports • Interview managers of supply or other experts • Use survey data if appropriate	• Create a spreadsheet model that will allow the user to vary all inputs • Refer to the modelling section for more guidance	• Vary inputs by +/- 10% and see results • Vary inputs to model discrete scenarios • Construct output tables, charts or other communication tools as appropriate	• Check results and insights versus other evidence e.g. business plans, research results, interviews with experts • This IS crucial: you have constructed a bottom up model: does it reflect reality?
Potential insights				
• Mix of sunk, fixed, variable costs • Dominant cost categories		• Key cost drivers • Cost / profitability reaction to changes in conditions		• Is the model reflecting reality?

Defining cost buckets
Costs can be broken out according to a number of different splits. For example, a childcare provider's costs might be broken out according to age of child, or function, such as staff, child costs (food and consumables), property costs, administrative overheads etc. It is important to find a mutually exclusive split – where each cost can be placed in only one of the categories. A logic tree may help in this process.

Gathering evidence
In some cases, detailed management accounts from existing suppliers might be available. In other cases, estimates might need to be pulled together from a range of different sources. Be aware that you are attempting to analyse costs for one example supplier – it cannot and will not reflect everyone in the market. Thus the need to run sensitivities and sense checks later in the process.

Constructing a spreadsheet model
Theoretically, you could stop after the previous step and still gain insights into the likely operation of the market. However, by pulling the estimates of costs in different categories together into a spreadsheet, further analysis can be conducted on the sensitivity of costs and supply on particular elements. This, in turn, allows one to predict likely reactions to policy options or new regulations. The spreadsheet itself should be as adjustable as possible to allow sensitivities and scenarios to be run easily. Refer to the **modelling** section for advice on the construction of spreadsheet models.

Investigating sensitivities
The spreadsheet model will allow adjustment of the cost variables to investigate the overall effect on the cost of supply or the profitability of a supplier (if the revenue side has been added). In many cases, there will be numerous variables that can be changed. It is important to alter one at a time, in a methodological fashion, in order to derive the results from changes in one variable at a time. A second approach is to run specific scenarios on the model – changing all the variables at once according to one view of the world.

Sense checking
The cost structure analysis conducted will have been based on a series of assumptions. However well these assumptions have been grounded in hard evidence, it is crucial to check that the results of the assumptions acting altogether make sense. Results can be checked with experts in the field, existing suppliers and other business plans that are available. This triangulation of results in important to ensure confidence in the messages being drawn from the analysis. This also brings up a limitation to the analysis conducted: however sophisticated the modelling, it can only be based on a series of assumptions. It does not reflect an actual outcome. It can therefore give insights into key drivers and likely reactions, but is not "the answer".

Strengths

- The structure, conduct, performance model provides an overarching framework for assessing the industries being studied. It provides a useful insight into the context within which a department or industry has been operating.
- The forces at work model provides a comprehensive checklist for analysing the structure of industries and sectors. It can be used to identify what further analysis is required.
- Cost structure analysis is potential very powerful since it can feed into a better understanding of market functioning and likely reactions to changes in policy.
- In areas where evidence has tended to be based on anecdote, cost structure analysis and modelling can bring significant new insight to the debate.

Weaknesses

- A model of costs or profitability can only give a simplified indication of the way the world works. It must not be viewed by the team (or stakeholders) as "the answer". Key messages can be drawn from running sensitivities or scenarios on the model, but should be carefully sense checked.
- Attempts to allocate overhead (shared) costs – such as administration – between different products, people or plants are fraught with difficulty and should be approached with caution. Each stakeholder will have an opinion on how such costs ought to be allocated.
- Cost structure analysis and profitability analysis will involve many variables and the team may wish to run sensitivities on most if not all inputs. This makes it crucial that key messages are drawn out for communication to stakeholders, without getting bogged down in technical details. The right insights need to be communicated in an effective way. This may mean significant lengths of time spent interpreting results within the team prior to communication to stakeholders.

References

Structure, Conduct, Performance
Industrial Market Structure and Economic Performance, Ross 1990

Forces at Work
Techniques for analysing industries and competitors, Porter 1980

Cost Structure Analysis
Katz and Rosen, "Microeconomics", 3rd edition, 1998, McGraw Hill – provides an overview of microeconomic costs and cost structures (see chapter 9).

Begg, Fischer and Dornbusch, any edition, McGraw Hill – again, gives an overview of microeconomic costs. In the 4th edition, this is found in chapter 8. Pages 20-24 also give a brief introduction to the principles of economic modelling.

Analysing data - Market analysis

In Practice: SU Fisheries Project

As part of the fisheries project, an Industry Analysis Workstream sought to understand the drivers in the Industry and the extent and location of the current crisis in the industry. On the basis of understanding the current drivers and issues we identified a number of long-term trends shaping the long-term picture for the industry.

Analysis of the Current State of the Industry

We tried to answer a number of core questions:

- **What is the appropriate definition of the industry in which the UK fishing fleet is?** Here we looked at the UK, EU and global fish markets in order to assess the drivers of profitability for the UK fishing fleet.
- **What are the different product markets?** The UK fishing fleet can be split into separate fleets catching different type of fish. The three main categories are Pelagic, Whitefish and Shellfish. Since the fleet structures and economics of the different fleets are different it was important to look at them individually. It was also important because EU quota rules are specified at the species level.
- **What are the key drivers of profit in the industry?** Once we had defined the individual segments, we then set about understanding the drivers of profit within each segment. In order to do this we used a Porter's five forces analysis to tease out possible drivers across different segments. Example drivers were things like stock levels by different species, demand for different species, competition from foreign imports etc.
- **Where is value being added across the supply chain?** Using the analysis carried out within the 5 forces framework we also sought to explain the variations in profitability across the supply chain. By looking at the different customer needs across the supply chain, we were able to identify possible future trends in the industry as well as explain where value has been migrating to in the industry.

Analysis of trends impacting future shape of the industry

- **What are the major forces shaping demand in the fishing industry?** What are the income elasticities associated with fish? How will consumer demand change over time for exotic species? How global will demand be for fish? How different will the demand function for farmed products be compared with those of wild catch?
- **What is the outlook of supply in the industry going forward?** How endangered are global stocks compared with those around the UK? If there is a global market for fish products, how competitive will the UK fleet be in this market? What has been the experience of our international competitors?
- **What will be the market structure in the long run?** How will the fish market be structured and how will the transaction occur? Will there be vertical or horizontal integration? Will fish be sold using forward contracts or through auctions? How will developments in aquaculture cannibalise the wild fish product markets?
- **What are the technological, social and regulatory trends affecting industry structure in the long run?** How will technological developments impact the cost of fishing and the competitive industry structure? How will the EU regulation relating to tariff barriers etc. Impact the scale and scope of the market. How is regulation in terms of quota setting and monitoring likely to be conducted in the future?

Input into other Workstreams

Having investigated these trends we were able to make both qualitative and quantitative assumptions about what the industry could look like over our time horizon. At this stage we were able to feed this analysis and understanding into the other workstreams. For instance we were able to inform the "communities" workstream regarding how fishing communities may be impacted by industry developments. Additionally we were also able to feed into policy work being undertaken by explaining how the industry might react to specific policy measures.

Strategy Skills > Building an Evidence Base

Analysing data - Organisational analysis

> **template**
> **in practice**

Organisational analysis aims to generate an understanding of the organisational structure and culture of the system the project is looking at. This can help in understanding the ease or difficulty with which new strategies can be adopted.

Resource Analysis

A resource audit should be carried out to identify the quantity and quality of resources available to the organisations that will be involved with the implementation of the new strategy. The key areas to assess include:

- Availability of and sources of finance
- Skills: organisational, leadership, technical expertise
- Availability of physical resources e.g. buildings offices etc
- IT capacity
- HR capacity.

There are also some intangible organisational assets which should be assessed such as:

- goodwill
- branding
- contacts
- image etc.

The audit should be comprehensive, but should concentrate on identifying resources that are critical to the organisation's capabilities.

It can also be helpful to conduct historical analysis, looking at the deployment of resources of the organisation by comparison with previous years. This can help identify any significant changes and reveal trends which might not otherwise be apparent. **Benchmarking** to other similar organisations both in the UK and other countries can also help put the organisation into perspective.

Finally, it may be beneficial to undertake analysis as to the extent to which the organisation's resources are balanced as a whole. The three key aspects of resource balance analysis are:

- the extent to which various activities and resources of the organisation complement each other
- the degree of balance of the people within the organisation in terms of individual skills and personality types
- whether the degree of flexibility in the organisation's resources is appropriate for the level of uncertainty in the environment and the degree of risk the organisation is likely to take.

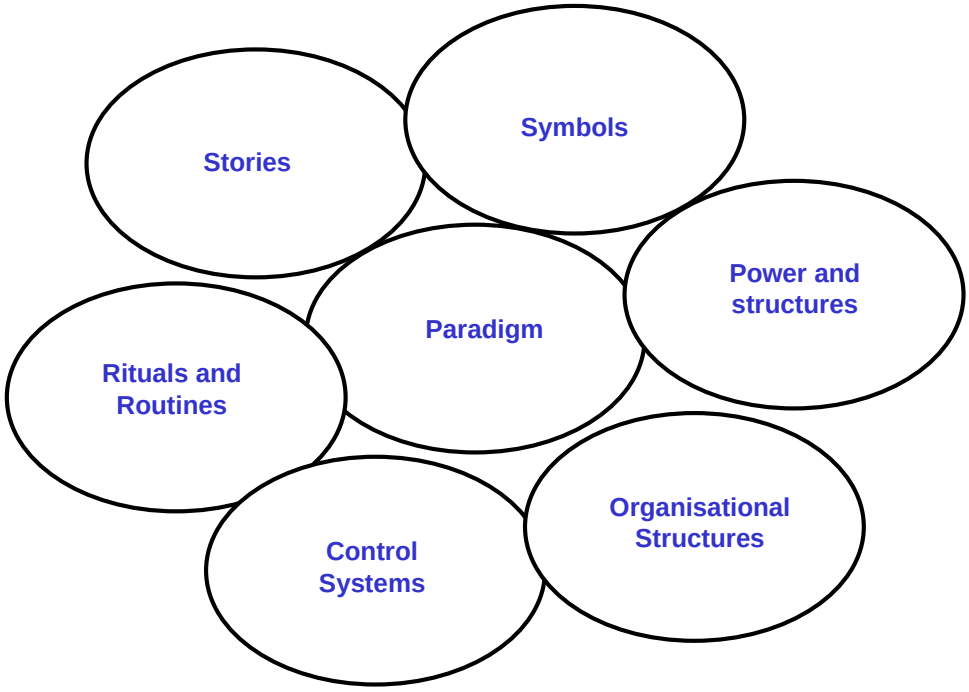
Cultural Mapping

The aim of cultural mapping is to understand how an organisation's culture will affect its ability to change and adapt to new policies or environments.

Faced with similar environments organisations respond differently. The collective behaviour of managers and employees is determined by frames of reference (the paradigm) which are created by the culture of the organisation (deeper level of basic assumptions and beliefs). The purpose of a cultural audit is to:

- understand that culture;
- understand how the culture contributes to the problem; and
- work out how it needs to change in order for the organisation to deliver the strategy effectively.

The cultural audit analyses different aspects of the organisation's cultural web:



See this **culture web template**

A cultural audit can be conducted through:

- Listening to people talk about their organisation
- Observing the organisation day to day operation
- Asking managers to undertake the audit themselves using a checklist

In addition, to identify the dominant culture of the organisation as a whole it is helpful to analyse the way its strategies have developed historically.

Checklist

Stories

- What core beliefs do stories reflect?
- How pervasive are these beliefs?
- Do stories relate to strengths or weaknesses, success or failures, conformity or mavericks
- Who are the heroes and villains?
- What norms do the mavericks deviate from?

Routines and rituals

- Which routines are emphasised?
- Which would look odd if changed?
- What behaviour do routines encourage?
- What are the key rituals?
- What core beliefs do they reflect?
- What do training programmes emphasise?
- How easy are rituals/routines to change?

Symbols

- What language and jargon is used?
- How internal or accessible is it?
- What aspects of strategy are highlighted in publicity?
- What status symbols are there?
- Are there particular symbols which denote the organisation?

Organisational structure

- How mechanistic/organic are the structures?
- How flat/hierarchical are the structures?
- How formal/informal are the structures?
- Do structures encourage collaboration or competition?
- What type of power structures do they support?

Control Systems

- What is most closely monitored/controlled?
- Is emphasis on reward or punishment?
- Are controls related to history or current strategies?
- Are there many/few controls?

Power Structures

- What are the core beliefs of the leadership?
- How strongly held are these beliefs?
- How is power distributed in the organisation ?
- Where are the main blockages to change?

Overall

- What is the dominant culture?
- How easy is this to change?
- Are there any linking threads through the separate elements of the web?

(Source: Exploring Corporate Strategy-Gerry Johnson, Kevan Scholes)

Strengths

- Organisational analysis allows you to understand the ease or difficulty with which new strategies can be adopted.
- Will help identify whether the organisation has the resources/competencies to deliver the new strategic direction, once identified.
- Will identify key areas of relevant expertise/knowledge within the organisation. Policies can then be developed to capitalise on this expertise.
- Feeds into **change management** and **implementation planning**
- Comprehensive assessment of organisational culture.

Weaknesses

- Time consuming and often neglected during the knowledge gathering phase.
- Assessment may not be objective if conducted by the managers of the organisation

References

Related Sections: comparison with other organisations - see **Benchmarking**

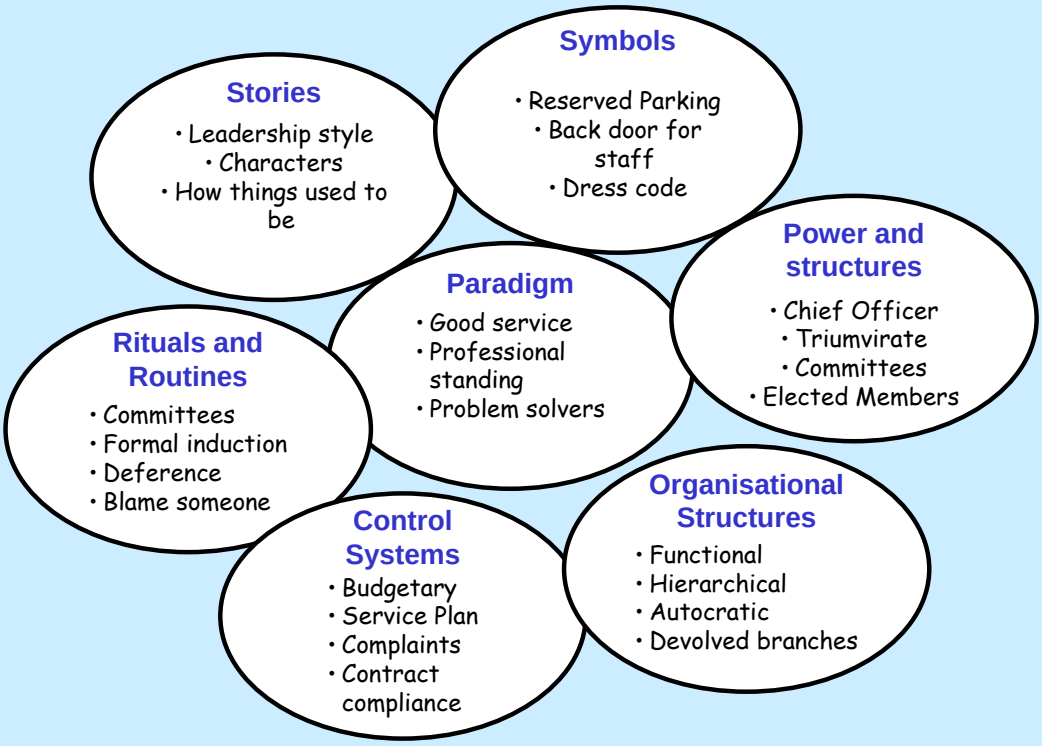
Exploring Corporate Strategy, Gerry Johnson & Kevan Scholes, Prentice Hall, 1993.

Analysing data - Organisational analysis

In Practice: A Local Authority

A workshop was held for three departments of a local authority to explore the cultural barriers to introducing a new strategy that was focused on the needs of local users. Each department was represented by 4-5 managers. The managers were divided into groups and given a blank cultural web diagram and asked to fill it in. The cultural web produced by those from the Technical Services Departments, showed that:

- There was a strong commitment to producing a high quality service but that this was due to a focus on professional standards rather than satisfy users of the service.
- Departments tended to be silos headed by chief officers who worked closely with the elected members of the local government.
- There was a hierarchical and mechanistic approach to management with a strong emphasis on structuring and budgeting
- The service was reactive rather than proactive
- There was a blame culture. If something went wrong blame someone else.



The workshop concluded that the "culture was managing the strategy". It was therefore very difficult to develop a strategy that focused on local issues that crossed departments. The Group then identified barriers to change, these included: firefighting, departmental barons, the formality of management, stories of the good old days and the blame culture. The group then re-mapped the cultural web with behaviours that would be needed to support a new strategy. The team then compared the two cultural webs, identified the changes that would be required, assessed how difficult it would be to manage those changes and identified those changes that would have a high impact.

Strategy Skills > Building an Evidence Base

Learning from others - International comparisons

> **in practice**

International comparisons bring together information, data and analysis on approaches to tackling similar policy areas in other countries and draw out relevant experience that may be applied in the UK. They can be one of the only real ways of comparing effectiveness of different strategies aimed at the same or similar problems (if in different institutional and cultural contexts). **Benchmarking** of different countries can also provide pointers to how to improve UK performance across a wide range of issues – by pointing to countries which are leading the field (identifying positive deviance from the norm).

Often conducted as a stand-alone piece of work, the output is usually a written report but could also be a presentation or seminar. It can also feed into the overall project report.

The Process

1. Identify problem or challenge
In the early stages of analysis, it is often helpful to define the problem being considered fairly flexibly or broadly and without couching it in institution-specific terms that might inhibit cross-national comparison. Once potential comparator countries have been identified, it will be possible to focus on the particular issues where international comparisons might be most instructive. The key questions to be addressed and the information to be acquired from an international mapping exercise should be carefully defined. A pro forma can be a helpful tool, particularly to guide web-based searches.

2. Identify comparator country/region
It is often useful to survey a wide variety of countries to see which might be the best 'fit'. The ideal comparator is one where there is a similar policy environment i.e. where the issues faced are closely comparable, and also where the two countries are similar in cultural and socio-economic respects. Of course, two policy environments will never be identical, and it is a matter of judgement as to the extent to which differences in ideological, resource and institutional factors at either the macro or micro level impact on the ability to make worthwhile comparisons.

3. Gather relevant evidence
In gathering evidence to inform cross-border learning, it is advisable to consult as wide a range of relevant sources as possible. From a distance, it can be difficult to map out the inter-relationships between different stakeholders, and determine the significance of different elements of the institutional landscape. Gaining a wide variety of perspectives on an issue helps to fill in essential contextual information and provide a more rounded understanding.

In gathering relevant evidence, a key decision is whether to visit the country in question or to collect information at a distance. If you are planning to conduct country visits, sufficient time and budget should be allocated in the project management plan. For distance data gathering, the internet is of course the most useful resource, in addition to telephone calls, correspondence and video conferencing.

Consider meeting, or corresponding with, the following: policy-makers/decision-makers; programme sponsors, managers, staff and other stakeholders (where a specific government programme or policy is being considered); target participants; evaluation and research/academic community, and representatives from the media.

Other sources of information include international bodies (e.g. European Commission, OECD, UN, World Bank, IMF) and Universities which have comparative research expertise in the area in question.

Most Departments will have good international contacts and should be able to point you to the relevant institution or person. The Foreign Office (FCO) will also be able to provide contacts in the relevant countries. However, the FCO receives a large number of requests for assistance from different departments. It is therefore important to use the FCO only when essential and to be very specific as to the information required. For example it may be possible to obtain the information required from other projects or ongoing work. If it is necessary to go through the FCO, see below for guidance on **working with embassies**.

The following points should be noted when considering international trips

- The value of a trip can be greatly reduced if insufficient research is carried out in preparation beforehand.
- Difficulty in identifying people to meet/key players – this can be far harder than it might appear - ask as widely as possible, both here and in the country you are planning to visit. It is far preferable to have too many contacts than too few! Also important to identify what information and data you would like to obtain from each of the individuals you meet based on their specific areas of expertise.
- Actual practicalities of undertaking a trip – in preparation and for the trip itself can both be very time consuming and tiring. Plan well in advance and be realistic about the number of meetings able to be accommodated on a trip.
- Follow-up after a trip – making sure lessons are learnt are integrated into mainstream work, including disseminating them effectively to colleagues. This can be difficult because some information/lessons will not be needed until much further down the line. Recording all information (writing notes of all meetings during the visit), keeping good contact lists and filing all papers is essential – it is surprisingly easy to forget the detail once you are no longer immersed in it!

4. Interpret relevant evidence

When interpreting international evidence it is important to bear in mind that whilst international experience can serve to inspire new lines of enquiry or, in some cases, constitute strong evidence that a particular policy idea is likely to be succeed or fail, it cannot itself give us the answers – potential solutions also need testing in the domestic context.

Tips for Undertaking International Comparisons

- Building in international comparisons at the most useful stage in the project – you need to have developed your own thinking sufficiently in order to ask detailed and focussed questions (especially if you are visiting in person) but it also needs to be early enough in the project to allow comparative international experience to shape your subsequent thinking
- Need to specify carefully a limited number of countries (around 6) and what is required in the comparison; context is very important.
- The team should be prepared to take the comparison work forward – academics (if you ask one to do the study) are often not best placed to draw out the issues, gaps and implications for the UK.
- Difficulties in getting anything other than anecdotal evidence even from 'experts'. The quality of evidence available internationally may be fairly patchy, especially when there is a lack of comparability in data sets etc between countries. Lack of familiarity with a different policy setting, and lack of time available to devote to international comparisons, makes unpicking research carried out overseas more difficult than analysing the findings of UK research.

Working through UK embassies abroad

Staff at UK embassies abroad can be incredibly helpful in providing background information, finding appropriate contacts, setting up meetings and providing cultural commentary on emerging conclusions. However, each embassy individual has to cover a wide portfolio and is having to juggle a wide range of requests.

The FCO has produced best practice advice for working with posts in EU capitals, which is also appropriate for working with posts world-wide:

- Explain the background to the requests/instructions.
- Write clearly, and if your note is to be handed over, write for a non-English speaker.
- Identify which posts you need to approach.
- Allow time.
- Set out our position/thinking, and highlight key points
- Include a speaking note where possible.

- Put a contact name, telephone number and e-mail address at the bottom of your request, and do not send your email to a random name in the post.
- When in doubt, check with the FCO and seek our advice. Always keep us aware of what you are doing.
- Please provide feedback to posts on how helpful the information has been and copy them the results. It enables them to respond more effectively next time.

Other best practice tips include:

- The structure of embassies varies, as do titles/portfolios for individual posts, so a little research is required to ensure you are contacting the correct person. It is probably best to start by contacting the relevant FCO country desk officer in London, who can then direct you to the appropriate contact in Post.
- The staffing levels of embassies varies greatly and needs to be taken into account when commissioning work. Select which countries you really need examples from, consult FCO on likely embassy capacity and ask posts to highlight any particular local issues.
- When commissioning work, it is best to provide details of background sources, with web addresses where possible. Embassy contacts are usually not specialists and this helps them get up to speed on the issue.
- Always provide details of the situation in the UK. This provides information for the embassy contact to trade with local officials. Also, if you have asked for a return from the embassy, the UK details will provide a template indicating desired coverage and level of detail.
- Initial requests should be copied to the relevant geographical department in the FCO, as well as any subject-based FCO contact(s). This allows FCO to keep track of the non-FCO requests being put to Embassies.
- The FCO are developing a 'Science and Technology' network, with a UK-based hub which provides advice and can act as a conduit for requests. Other networks being established include the Environment network and the Energy network.
- Departments will have on-going contacts with embassies and sometimes have specialists in policy interactions with particular markets. Ensure that you talk to all UK-based contacts in parallel with posts.
- Ask Departmental and Embassy contacts about any in/formal bilaterals or conferences in your subject area. It may be possible to attend or ask that specific questions be raised on your behalf.
- If it is likely that other international comparisons are to be requested in the future, it is worth sending a warning to the relevant embassies. This will disappear in the maelstrom of paperwork in some posts, but others will start thinking and collecting relevant information on what may not be a specialist topic.
- Be aware that holiday seasons vary between countries. For example, Sweden takes its eight week summer holiday from mid-June to mid-August, and so arranging meetings in July can be difficult. UKREP contacts in Brussels recommend avoiding the first month of presidencies where possible.

Strengths

- Provides a real insight into strategy development and context in other countries.
- Provides a framework for assessing UK performance and strategy/policy gaps.
- Provides ideas to pursue in the policy development stage of a project.
- International comparisons are best used when the issue being addressed is very clear-cut (the regulation of simple monopolies for example). They are least useful where important underlying circumstances are radically different.

Weaknesses

- It's easy to get bogged down in irrelevant details whilst trying to get to grips with a new policy setting – the trick is to isolate and focus on the most relevant facts.
- Having too many objectives and too wide a range of evidence you're looking for – important to clearly define and focus your enquiry.

Useful Sources of International Comparative Data

Reform Monitor. This site tries to keep up to date with different government reforms instituted in the areas of social policy (health care, pensions provision, family policy, state welfare), labour market policy and industrial relations. It is international in scope (15 OECD-countries: Australia, Austria, Canada, Denmark, Finland, France, Germany, Italy, Japan, Netherlands, Spain, Sweden, Switzerland, United Kingdom and United States of America). It doesn't seem to keep completely up to date (certainly not in relation to UK policy) but provides some useful descriptive comparisons of policies in OECD countries.

Campbell Collaboration. Newly constituted international collaboration which aims to assess the actual effect of social and educational reforms more rigorously than has been done in the past. It is closely linked with its sister organisation, the **Cochrane Collaboration,** which aims to do the same assessment of "what works" for medical interventions.

Economist Country Briefings. The Economist has made many of its country-specific articles and surveys available on its website. These can provide useful context and background material.

Public Management OECD Country Information. The OECD maintains a country-by-country resource on developments in governance and public management.

International Comparisons toolkit on the **Policy Hub**

References

Almost every Strategy Unit project has undertaken international comparisons and these are worth a look, often to be found as annexes in reports. For example, see the **Adoption Review** (July 2000) and the **Ethnic Minorities in the Labour Market** report (Feb 2002).

There is a wealth of academic literature on comparative political science (focussing on the viability of making cross-national comparisons) and specifically on policy transfer ('exporting' policies from one setting to another).

Global Comparisons in Policy-Making: the view from the Centre, Geoff Mulgan, June 2003.

Policy Hub International Resources section provides a range of guidance and resources including the CMPS International Comparisons Toolkit that includes several case studies and a directory of information sources.

Learning from others - International comparisons

In Practice 1: SU Workforce Development Project

International comparisons for Workforce Development were undertaken a well-respected academic in the field. He had already done much comparative work and could therefore put together a report in a relatively short space of time.

What we did:

- specify a time frame for the work (in this case, about 6 weeks);
- specify the countries we were interested in;
- supplied articles, contacts, and data that the team had already collected;
- organise a day in Paris, with the help of the British Embassy, to visit industry, union and Government representatives;

What he did:

- gave us an outline of themes to address;
- advised on which countries would make interesting and relevant comparisons;
- wrote a draft report and a subsequent final report to put on the internet;
- presented findings at a seminar;
- continued to be on hand to answer follow up questions from the team.

Further information can be found in Annex 9 of the **Workforce Development Report**.

Learning from others - International comparisons

In Practice 2: SU Voluntary Sector Regulation Project

International mapping: At an early stage in the project we mapped out the key characteristics of law and regulation relating to not-for-profit organisations in a wide number of countries (e.g. most European and Commonwealth countries, and the USA). This information was collected via requests to the Embassy in each country, and through other contacts.

Visit to Australia and New Zealand: Australia and New Zealand had both recently completed reviews with a scope which was extremely similar to that of the Strategy Unit project and both had an equivalent common law legal system. The 'problem' to be addressed was almost identical to that being addressed in the UK by the Strategy Unit team – although the reasons for addressing it, and the drivers behind the respective reviews were different – and some of the solutions being proposed looked to have promising potential for the UK context. Two members of the team visited both countries, conducting a round trip taking 10 days (including travel) and conducting face to face interviews with academics, policy makers from range of government departments in both administrations, voluntary organisations (especially umbrella organisations) and MPs/politicians. We identified the individuals we wished to meet partly by asking our UK contacts for leads, partly via searching the web and partly with the help of the High Commissions in both countries, who also offered some limited help with the organisation.

The visit to Australia and New Zealand was valuable in filling in essential contextual information (such as the political context, the drivers behind the review, and the reasoning behind the selection of particular policy options – the type of thing which would have been extremely difficult to ascertain at a distance). Without this, assessing the merits of the proposals and their applicability to the UK context, would have been difficult. The visit also brought a new perspective and new intellectual stimulus to our own challenge and challenged several of our key assumptions about our own situation. The exercise also clearly demonstrated that evidence of unsuccessful initiatives (i.e. what not to do) is equally valuable (although less visible in terms of final outputs).

Learning from others - International comparisons

In Practice 3: SU Global Health Project

The SU project on global health looked at ways to improve the international community's contribution to tackling HIV/AIDS, TB and malaria in developing countries. The team used **a pro forma** to guide their collection of material on existing programmes.

Strategy Skills > Building an Evidence Base

Learning from others - Benchmarking

> **in practice**

Comparing performance, or benchmarking, is a valuable means of improving understanding of capability and identifying areas for development in the delivery of a strategy or policy.

There are numerous definitions of benchmarking but essentially it involves learning, sharing information and adopting promising practices.

What is Benchmarking?

According to the **Public Sector Benchmarking Service,** benchmarking means "improving ourselves by learning from others". Most organisations tailor definitions of benchmarking to suit their own strategies and objectives. For example:

> "Benchmarking is simply about making comparisons with other organisations and then learning the lessons that those comparisons throw up". *Source: The European Benchmarking Code of Conduct.*
>
> "Benchmarking is the continuous process of measuring products, services and practices against the toughest competitors or those companies recognised as industry leaders (best in class)". *Source: The Xerox Corporation.*

Why Benchmark?

When used appropriately, benchmarking has proved to be a very effective tool for bringing about improvements in performance. Benchmarking provides:

- An effective "wake up call" and helps to make a strong case for change
- Practical ways in which step changes in performance can be achieved by learning from others who have already undertaken comparable changes
- Impetus for seeking new ways of doing things and promotes a culture that is receptive to fresh approaches and ideas
- Opportunities for staff to learn new skills and be involved in the strategy development and formation process.

Types of Benchmarking

1. *Strategic Benchmarking* is used where organisations seek to improve their overall performance by examining the long-term strategies and general approaches that have enabled high-performers to succeed. It involves considering high level aspects such as core competencies, developing new products and services; changing the balance of activities; and improving capabilities for dealing with changes in the background environment. The changes resulting from this type of benchmarking may be difficult to implement and the benefits are likely to take a long time to materialise.

2. *Performance Benchmarking* or *Competitive Benchmarking* is used where organisations consider their positions in relation to performance characteristics of key products and services. Benchmarking partners are drawn from the same sector. However, in the commercial world, it is common for companies to undertake this type of benchmarking through trade associations or third parties to protect confidentiality.

3. *Process Benchmarking* is used when the focus is on improving specific critical processes and operations. Benchmarking partners are sought from best practice organisations that perform similar work or deliver similar services. Process benchmarking invariably involves producing process maps to facilitate comparison and analysis. This type of benchmarking can result in benefits in the short term.

4. *Functional Benchmarking* or *Generic Benchmarking* is used when organisations look to benchmark with partners drawn from different business sectors or areas of activity to find ways of improving similar functions or work processes. This sort of benchmarking can lead to innovation and dramatic improvements.

5. *Internal Benchmarking* involves seeking partners from within the same organisation, for example, from business units located in different areas. The main advantages of internal benchmarking are that access to sensitive data and information are easier; standardised data is often readily available; and, usually less time and resources are needed. There may be fewer barriers to implementation as practises may be relatively easy to transfer across the same organisation. However, real innovation may be lacking and best in class performance is more likely to be found through external benchmarking.

6. *External Benchmarking* involves seeking outside organisations that are known to be best in class. External benchmarking provides opportunities of learning from those who are at the leading edge, although it must be remembered that not every best practice solution can be transferred to others. In addition, this type of benchmarking may take up more time and resource to ensure the comparability of data and information, the credibility of the findings and the development of sound recommendations. External learning is also often slower because of the 'not invented here' syndrome.

7. *International Benchmarking* involves comparison with similar public-service providers in other countries to put an organisation's performance into perspective. It helps decide when a policy problem is tractable or actable and identify how much change to expect. Comparison of similar value activities, rather than a straight comparison of resources, is important for the strategic context to be maintained.

When benchmarking, it is essential to have sufficient data to allow meaningful comparisons. This could be either historical data over time, or cross sectional data. It is often useful to use the data to test a hypothesis.

Strengths

- Successful benchmarking, in which gaps in performance are bridged by improvements, results in significant tangible benefits including step changes in performance and innovation, improving quality and productivity and improving performance measurement.
- Benchmarking can raise awareness about performance and promote greater openness on strengths and weaknesses
- Learning from others can result in greater confidence in developing and applying new approaches
- Increased willingness to share solutions to common problems and build consensus about what is needed to accommodate change
- Better understanding of the big picture and gaining a broader perspective on the interplay of the factors (or enablers) that facilitate the implementation of good practice.

Weaknesses

- Comparing performance of two different institutions/organisations/ countries can be misleading. For example different histories or cultures could explain differences in performance. Benchmarking should therefore be used to increase understanding, rather than prompt specific actions.

References

The **Public Sector Benchmarking Service**, a partnership between the Cabinet Office and HM Customs & Excise, aims to promote effective benchmarking and share good practices across the public sector. The website contains further information on what benchmarking is, the benefits and different types of benchmarking, and the benchmarking process itself.

In addition to the sources listed in **data types & sources**, the following provide useful benchmarking data:

World Values Survey

International Social Survey Programme

Health and Behaviour in school-age children (WHO website)

International Crime Victimisation Survey (Home Office website)

Eurobarometer

Benchmarking

In Practice: SU & DCMS Sport Project

Development of policy for the Joint SU/DCMS report on sport "Game Plan: a strategy for delivering Government's sport and physical activity objectives".

The review team on the sports project used benchmarking in drawing up its recommendations on the two main areas of sport: grassroots sport and high performance sport.

The review team could not find a recent example of a country which has been able to obtain and maintain a successful balance between grassroots and high performance sport - many Governments fund one at the expense of the other (note that there is no firm evidence that strong grassroots sport and high participation levels leads to success in high performance sport, or vice versa).

The team did not want to make recommendations that focussed on just one area and so developed policy recommendations that would enable the Government to take a 'twin track' approach and thereby provide funding for both.

1. Grassroots sport

The team was keen to make recommendations aimed at developing a sport and physical exercise culture in the UK and so looked closely at the policies and interventions used by Governments in other countries in order to increase participation in sport.

Analysis of other countries' participation rates showed that, similar to the UK, almost all had a sharp fall-off in participation rates at school leaving age, with the decline continuing with age. However, Scandanavian countries, and Finland in particular, had managed to reverse that decline. Whilst they too experienced a sharp fall at school leaving age, the decline reached a plateau in peoples mid-twenties. Participation rates then remained steady until to their early forties when participation rates actually started to increase.

This was instrumental in giving Finland participation rates of:

- Sport: 80%, compared with 46% in the UK
- Physical activity: 70%, compared with 32% in the UK

Members of the team visited Finland to find out more about this and examine the steps taken by the Finnish Government to help obtain these high participation rates. Their findings were used to help shape the final report, with one of the main recommendations being that the UK achieves Scandinavian levels of participation by 2020.

2. High Performance sport

Given a range of factors including population and GDP, Australia has achieved disproportionate levels of international success in sport in the last 25 years. Consequently, in developing recommendations in this area, the review team focussed on Australia as a good benchmark.

Analysis showed that Australian funding of sport breaks down to around 80% for high performance sport and 20% for grassroots sport. It is exactly the reverse in the UK. Also, the Australians have chosen to focus on achieving success in a smaller number of popular sports, whereas the UK spreads the funding thinner over a much wider range of sports.

The review team felt that it would not be desirable to replicate the Australian model of a 80%/20% funding split in favour of high performance sport, but that we ought to focus our attention and finance on those sports which offer the best return for the Government investment provided in terms of their:

- need for funding (to avoid funding 'rich' sports)
- potential to win medals/championships
- ability to deliver (does the sport have adequate management controls in place? etc)
- popularity (and consequently their ability to generate 'feel good factor' and national pride).

The resulting recommendations in 'Game Plan' are aimed at making the UK (or Home Countries where appropriate) teams and individuals sustain places in the top 5 world rankings by 2020.

Strategy Skills > Building an Evidence Base

Looking forward - Forecasting

> **in practice**

Forecasting identifies and tracks past trends and extrapolates them into the future. Typically, it is used to track over time (time-series forecasting), and to make predictions about differences among people, firms or other objects (cross-sectional forecasting). As well as quantitative (statistical methods), it also includes the use of more qualitative (judgmental) methods.

As looking into the future naturally involves a varying degree of uncertainty, sometimes a distinction is drawn between forecasting and projections. In certain contexts, particularly economic ones, forecasting is used to refer to short-term extrapolations associated with a reasonable degree of certainty. Projections are considered to be longer-term, more sophisticated, but also less reliable. This distinction does not always hold true, for example demographic projections can be very reliable over the time span of a generation. For this reason this section distinguishes instead between quantitative and qualitative trend analysis.

Quantitative Analysis

Quantitative trend analysis is probably the most common forecasting method. It relies on the statistical analysis of historical data – in other words it is relatively objective. Quantitative techniques include extrapolation (such as moving averages, linear projections against time or exponential smoothing) and econometric methods (typically using regression techniques to estimate the effects of causal variables). This type of analysis is commonly used to forecast demographic and economic changes where extrapolating over time is believed to have some validity.

The Strategy Unit, **A Futurist's Toolbox**, identifies some of the main quantitative techniques used by forecasters. Other techniques for short to medium term analysis and forecasting include:

Modelling
Modelling is an extremely useful tool for quantitative analysis. Excel and econometric modelling techniques are outlined in the **modelling** section of the guide.

Simple Moving Averages
The best-known forecasting method is moving averages. It simply takes a certain number of past periods and adds them together, then divide by the number of periods. Simple Moving Averages (MA) is an effective and efficient provided the time series is stationary in both mean and variance. The following formula is used in finding the moving average of order n, MA(n) for a period t+1,

$$MA_{t+1} = [D_t + D_{t-1} + ... + D_{t-n+1}] / n$$

where n is the number of observations used in the calculation.

The forecast for time period t+ 1 is the forecast for all future time periods. However, this forecast is revised only when new data becomes available.

Weighted Moving Averages
Very powerful and economical. They are widely used where repeated forecasts required-uses methods like sum-of-the-digits and trend adjustment methods. As an example, a Weighted Moving Averages is:

$$\text{Weighted MA(3)} = w_1.D_t + w_2.D_{t-1} + w_3.D_{t-2}$$

where the weights are any positive numbers such that: w1 + w2 + w3 =1. A typical weights for this example is, $w_1 = 3/(1 + 2 + 3) = 3/6$, $w_2 = 2/6$, and $w_3 = 1/6$.

Linear Projection
Used to estimate values in future periods. By taking historical data, an actual growth rate can be determined. This rate is then applied to the last known year and run forward. The validity of the growth rate found in historical data depends largely on the number of reference points and the period over which they are found. Obviously, the more reference points and the longer the period, the better. Linear projection will only serve as a predictor of future values if future trend determinants are the same as historical determinants. Therefore, factors such as technological innovation, changes in behaviour and radical economic shifts can all mean that historical determinants are no guide to future trends.

Often it is difficult to find sufficient data to allow detailed quantitative analysis. Techniques to address this problem include estimation and triangulation:

Estimation
One of the key difficulties in conducting forecasting is a lack of available data. If this is the case, estimation may be suitable. The most common forms of estimation are:

- Ask an expert or group of experts to use their experience to formulate an opinion.
- Develop a case study. For example, how many gardens are there in the UK? You might discover from the Office of National Statistics site that there are x places of abode in the UK, of which b are units, c are detached and d are terraces. You might assume that all the detached and terrace properties have gardens and one third of the flats have gardens. The most important thing is to ensure that your assumptions are clearly noted, so that the model users are able to adjust the assumptions if more accurate data comes to light.
- Mirroring. This method can be used when you identify a corresponding event. For a particular prescription drug may always be bought in conjunction with another drug. You may be able to ascertain the sales of the second drug by adding up quantities from annual reports, and then 'mirror' that number to find an estimation of the number of sales of the first drug.

Triangulation
When developing a model, data is often incomplete or approximate. In other instances you may have several sources of data that conflict. One way of developing a base to work from is to triangulate the available information to develop a defensible average.

Three sources of comparable data are needed. These may be obtained by various methods – extrapolation, expert estimation, case studies, literature reviews, etc. Once the information from all sources is standardised (that is using the same base, units, denomination, etc), an average is taken. Usually it is a straight average, though sometimes you may weight some of the information sources – to reflect a higher quality data source.

Qualitative Analysis
Qualitative trend analysis is more subjective and is concerned mainly with social, institutional, commercial and political themes (i.e. things which may not be linearly related to the past). For example, qualitative trend analyses deal with issues such as:

- What is the future of trade unions?
- What is the future of political parties or NGOs?
- What is the future of the entertainment business?

One of the most common forms of qualitative trend analysis is the identification of 'megatrends' – driving forces which can change society in all spheres e.g. politics, economics, technology, values and social relations. Other tools include **scenarios** and analogies.

Qualitative analyses can be applied to most areas, but work best when focusing on real change. Megatrends apply to all areas, within the defined time and setting. It is important, though, to be aware that mega-trends may themselves produce powerful counter-trends - and that they may interact with each other.

Scenario Design
Quantitative and qualitative trend analyses together form the basis for **scenario design**. Different combinations of key trends are used to describe possible pictures of the future, which can then be used to design or test policy.

Strengths

- *Quantitative* forecasts are usually more objective, relatively inexpensive and easy to use (contingent upon some knowledge of statistics).
- *Qualitative* forecasts can be valuable predictors of new trends, by using the creativity and good judgement of experts.

Weaknesses

- *Quantitative* forecasts can be misleading. The past is not always predictive of the future. Such forecasts do not take into account unpredictable changes or discoveries (e.g. discovery of new natural resources) or 'wild cards' (e.g. unexpected acts of terrorism).
- When using *qualitative* techniques to identify possible new trends it will always be the case that some, or maybe even all of the results are eventually disproved. It is particularly difficult to distinguish between short term 'fads' and long term trends.

References

The Strategy Unit report **A Futurist's toolbox** sets out the basic steps for carrying out forecasting analysis. The report summarises the six key methodologies for futures work, covering most of the commonly used tools by professional futurists. Some of the elements of the report are outlined below.

Short Survey of Published Material on Key UK Trends 2001-2011 This report was undertaken by the Strategy Unit with the Defence Science and Technology Laboratory (DSTL) to synthesise existing predictions on trends in several sectors including: the economy; demographics; the environment; housing; and, health. The data is broken down by time into a period of relative certainty (2001-2006) and a period of lower certainty (2006-2011).

Strategic Futures Thinking: meta analysis of published material on Drivers and Trends. This was another report produced in conjunction with the Defence Science and Technology Laboratory (DSTL). The report examines published literature on key futures issues. It identifies six key drivers of change; demographics, economics, science and technology, environment, governance and attitudes and beliefs. It is also a useful source document for other materials.

The **OECD International Futures Programme.** This is designed to help decision makers to understand the key factors affecting the long-term future. It provides monitoring of the long-term economic and social horizon. It also provides early warning on emerging issues, pinpointing of major developments and possible trend breaks.

For comprehensive information on all aspects of forecasting from methods to purposes to evaluation there is a useful website – the **Forecasting Principles site** run by Wharton Business School. The work outlines a number of different ways to approach forecasting and provides a forecasting methodology tree for determining which forecasting method is most appropriate. While Strategy Unit cannot vouch for the day to day currency of this site, at the time of writing it summarises much useful knowledge about forecasting. It is designed to be accessible to researchers, practitioners, and educators. This knowledge is provided as principles (guidelines, prescription, rules, conditions, action statements, or advice about what to do in given situations). There are many materials that can be downloaded.

Forecasting

In Practice 1: SU Ethnic Minorities and the Labour Market Project

This project was set up to examine and improve the position of ethnic minorities in the UK labour market. As a first stage, an Interim report was produced in early 2002. Amongst other things, the interim report looked at the future size of the ethnic minority population within the UK, as well as the effects that this would have on the labour market as a whole. The project did not do it's own forecasting, but rather used existing forecasts produced in this area. This data is discussed on page 24 of the **Ethnic Minorities and the Labour Market report**.

The forecasts used were important in stressing the fact that the problems faced by ethnic minorities in the labour market are growing to a point at which they become a problem for the wider UK population. In other words, forecasting helped to show how a niche concern is likely to become a general one over time.

Forecasting

In practice 2: SU Waste Project

The Waste Project utilised a linear projection model that projected, on an annual basis to 2020, volumes of municipal waste and waste management methods, volumes of recyclate, expenditure and facilities.

Prediction of the volume of arisings for the entire period was therefore a crucial part of the model. However, the extent to which linear projection was used in the Waste Project, to estimate growth rates of municipal waste, was limited due to lack of historical growth data. Detailed data was not collected until about 5 years before the study, and even that data was incomplete. Furthermore the data that did exist was controversial – industry sources questioned whether the numbers reported related solely to the stream in question, given the unrecorded transfers between, for example, municipal and commercial waste. To add further complication, there was no consensus over the growth drivers or trends, making linear projection difficult to do and defend as the sole method.

This problem was partly resolved by using linear projection, in conjunction with estimation, to run two different growth rates on top of each other. Firstly, a generic 3% growth rate, based on growth in the previous period, was used, with the default growth rate becoming 2.5% from 2010 onwards. Secondly, a set of waste minimisation programs in the scenario necessitated a separate growth rate for specific targeted materials in the waste stream, hence, a more complex series of estimations, which were not based on historical data, were overlaid the generic growth rate. These estimates were forward looking and based on how waste minimisation programs, e.g. reducing household waste through producer responsibility, home composting, disposable nappy reduction etc, would further reduce selected material streams. The growth rates resulting from the waste minimisation program were determined using a variety of sources.

In a modelling situation where there is uncertain data, or where more information is likely to emerge over time, which will alter the growth rate and/or increase the confidence of the estimation, it is useful to allow the model user to be able to change the questionable variable. The model must then be correctly linked to the variable data to be able to reflect such changes.

Strategy Skills > Building an Evidence Base

Looking forward - Scenario development

> **in practice**

Scenarios are used to identify a number of possible alternative futures and, optionally, how we might get there.

Scenarios are not predictions of the future. They show how different interpretations of the driving forces of change can lead to different possible futures. By setting up several scenarios a possibility space is created and it is within this space that the future is likely to unfold.

Scenarios are an important and useful tool in providing a neutral space (the future) for discussion, helping to build consensus on the key issues facing all stakeholders. They:

- Offer an inclusive and consultative process
- Can reflect the views and challenges facing all stakeholders
- Are a useful tool for organisational learning
- Use stories to describe strategic issues
- Allow detailed analysis to be woven in.

As well as being useful in strategy formulation, they can be used in policy development, conflict resolution, group learning and to aid rehearsal of management decisions. They can be used at many levels:

- Nations
- Government
- Regions
- Sectors
- Multi-national companies
- Small / Medium enterprises
- Single institutions
- Multi-organisation partnerships.

Scenarios can be used over any time scale, dependent on the primary objective for using them. Scenarios developed in order to aid team development, for example, are likely to be developed more quickly and have a shorter shelf life than those used for policy development.

Scenario Development – background

Societal, technological, economical, environmental and political drivers (as well as organisational and transactional environments) should be identified and used in constructing scenarios. Good scenarios:

- Are based on analysis of change drivers
- Allow critical uncertainties and predetermined elements to be distinguished
- Are compelling and credible
- Are internally logic and consistent.

Scenarios will not:

- Make the decisions
- Begin an unstoppable course of action
- Ever be entirely right (although elements of each scenario could be)
- Persuade everybody.

When building scenarios, the focus of interest needs to be agreed, the change drivers identified and the key uncertainties mapped to determine the critical planning area for scenario development – the area of uncertain, important change drivers. The dynamics between these change drivers and how they play off each other are the starting point for developing different possible futures. For scenarios to be effective they need to plausible and compelling (as opposed to being implausible or obvious), as well as being stretching – taking their intended audience into what can be 'uncomfortable' territory. There is a risk or even likelihood that audiences may 'pull back' from such scenarios, for a number of reasons:

- People are not skilled at thinking about the future and therefore may find it difficult to understand where the scenarios have come from
- Scenarios invite people to lay bare their assumptions
- Scenario thinking removes the rules and structures of today, which makes some people defensive.
- Scenarios invite people to explore what might happen, and people want to control what will happen
- Understanding scenarios (the output) relies on understanding drivers and uncertainties (the input) and many people do not have a detailed understanding of the current situation.

For effective scenario generation therefore it is important to know well the intended use and audience for the scenarios. As far as possible, the audience should be used for developing the scenarios and testing and verifying the plausibility and areas of comfort or discomfort in each scenario.

Scenario Development - process

There are a number of factors which will affect the design of the scenario process. For example: is there one preferred or multiple explorative futures?

- The Normative method involves defining a preferred vision of the future and outlining different pathways from the goal to the present.
- The Explorative method meanwhile involves defining drivers, assessing their importance and outlining the scenarios.

Another important factor in the design process is whether new or contextualised scenarios are the goal. It is time consuming to generate scenarios from scratch. It can be more effective therefore to make use of existing generic scenarios, already developed and tested. Examples include the DTI scenarios produced for their 'futures lab' (**futurefocus@dti)** and the scenarios developed by Shell (see references). There are also many other 'off-the-shelf' scenarios.

A further factor for consideration is the extent of consultation that is desired and indeed possible. It may be decided to present stakeholders with the finished scenario. This is swift but it can be hard for stakeholders to engage with scenarios if they were not involved in their development. It is better if stakeholders can participate in building the scenarios. This can be time-consuming but if well managed it is possible to move from the first stage identification of raw drivers to final scenario generation within a couple of weeks (one of the hardest tasks being identification of key individuals for the process).

Typical steps in scenario generation

1. Assemble the scenario team
   - The core team will be responsible for project and workshop management, providing sponsoring departments' points of view and internal communications.
   - Experienced scenario-planners should also form part of the team - to lead the process and ensure clarity about the focus of interest.

2. Identify drivers of change
   - It is often best to use workshops to do this. You should determine the 'mix' of stakeholder groups and size and number of workshops required (suggested bare minimum: 10 people, one half day workshop).
   - Ensure participants understand purpose, format and outputs from the workshop (and have good pre-briefing materials).
   - Brainstorm on drivers of change: compiling an unfiltered list; disposing of obviously invalid drivers and sorting and categorising the list.

3. Bring drivers together into a viable framework
   - The next step is to link these drivers together to provide a meaningful framework. This should involve grouping the drivers into combinations that are meaningful.
   - This is probably the most difficult conceptual step and intuition will be important.

4. Produce initial mini-scenarios
   - The outcome of the previous step is usually between seven and nine logical groupings of drivers.
   - Having placed factors in these groups work out, very approximately at this stage, what is the connection between them. What does each group of drivers represent?

5. Reduce scenarios
   - The main action at this stage is to reduce the seven to nine mini-scenarios into two or three larger scenarios. The challenge is to come down to finding just 2 or 3 "containers" into which all the topics can sensibly be fitted. This usually requires considerable amount of debate but usually producers fundamental insights into what are the really important issues.
   - The main reason for reducing to 2, 3 or 4 scenarios is a practical one. Managers who will be asked to use the final scenarios can only cope effectively with a small number of versions.

6. Testing the scenarios
   - Having grouped the drivers into scenarios, the next step is to test them for viability. Do they make sense? If they don't intuitively "hang together" then why not?
   - The usual problem is that one of more of the assumptions turns out to be unrealistic. If so, then you need to return to the second step.
   - The key point to remember is that developing scenarios is likely to be an iterative process.

7. Write the scenarios
   - Once tested for viability, the scenarios should be written up in the format most useful for the client.
   - Most scenarios will be in written form, especially where they will almost inevitably be qualitative. Other formats include adding "fictional" characters to the material, using numeric data or diagrams, or using more detailed fictional forms. An extreme example of the latter could be assuming the character of a leader writer in the Financial Times in the year 2010, for instance.

8. Validation of Scenarios
   - Once written up, the scenarios should go through a consultation phrase to allow them to be approved and revised. Original workshop delegates should always be consulted but the audience for scenario testing may be much wider - putting up on an electronic forum can be useful (but the scenarios should have a caveat stressing they are in development). The key message here is to cast your net wide.
   - Built into the whole scenario process must be the capacity to revise scenarios when there is some fundamental change to underpinning drivers. Thus a team member should be assigned to continually review the validity of scenarios – this is an iterative process not a 'one-off'.

Incorporation of scenarios into project, policy or organisational culture

Scenarios must be completely embedded in the project or policy of which they form a part. If they are to become part of the organisational mindset then they will need careful dissemination to get good engagement. It is also important that they form part of the underpinning assumptions of future work not just the work they were originally commissioned for.

For good engagement with scenarios, they must be widely circulated. When distributing the scenarios, however, you should make clear whether they are being distributed for comment or for information.

The report - A **Futurist toolbox** outlines an explorative scenario process.

Strengths

- Can help to identify opportunities.
- Can act as a checklist during planning to ensure that nothing has been forgotten.
- Can be used to give early warning to possible changes.

- Can be used to envisage preferred futures.
- Remove some of today's constraints.
- Allow strategists to say "what if…?" "I like that…" "That would be a good outcome".
- Assist in separating tangled issues.
- Help to break 'group think' and conventional wisdom.
- Allow 'undiscussables' to be aired.
- Create a rich and shared picture of outcomes.

Weaknesses

- Can be difficult to translate the outcomes into concrete decisions.
- The method is partly based on qualitative information that is imprecise.
- Beware of focussing too much on the scenarios at the expense of the actual objective for using them.

References

The **Generic Scenarios paper** by the Strategy Unit Strategic Futures team (December 2002) presents summaries and provides links to generic scenario sets, in order to provide background materials to help those interested in using scenarios for their own projects.

Exploring Corporate Strategy, Johnson, G., and Scholes, K.

S.P Schnaars *'How to develop and use scenarios'* in R.G. Dyson Strategic Planning: Models and analytical techniques, Wiley 1990

Scenarios shooting the rapids, Wack, P. Havard Business Review Vol. 63 no 6

Scenario Planning: Managing for the Future, Ringland, G. 1998

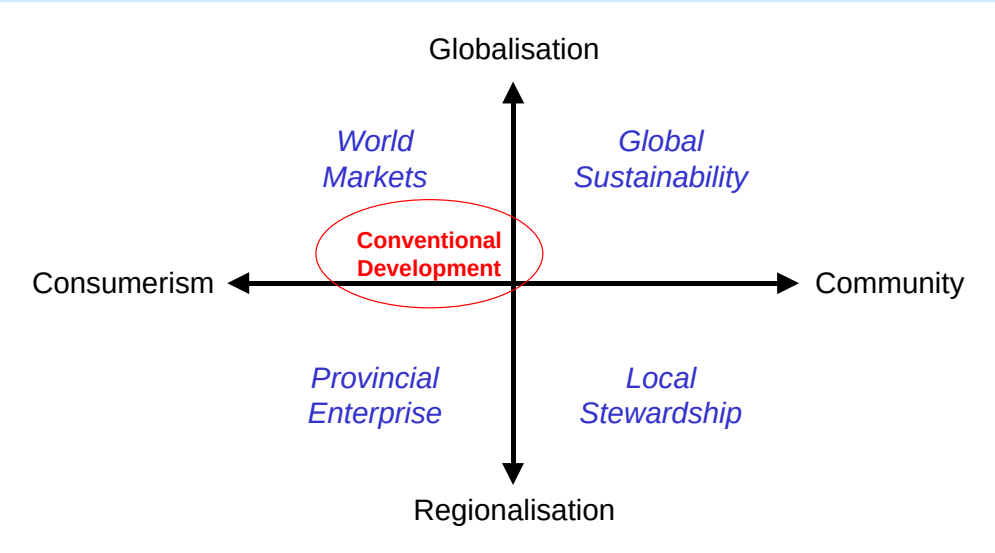
The Sixth Sense: Accelerating Organisational Learning with Scenarios, Kees van der Heijden et al 2002

Scenario development

In Practice 1: SU Energy Review

The DTI Foresight scenarios describe four futures based on two extremes of governance (global or local) and two extremes of social values (individual or communal). The scenarios are realistic in the sense that they represent value systems held by minority groups, but appear extreme when compared to the current culture.

Foresight Environmental Futures and Conventional Development



The Foresight scenarios were used in the Energy review on two time scales. The first was to 2050 with a view to seeing the degree to which the scenarios were consistent with a low-carbon future. The second use was to 2020 where the main use was to explore the ways in which the electricity generating stations being decommissioned could be replaced. In both cases the scenarios were developed quantitatively with detailed projections of energy demands (by sector and type of demand; heat, power or transport). Each demand was forecast using a driver (such as number of households), level of energy services required (driven by GDP growth and curtailed by saturation effects) and improvements in energy efficiency (by both deliberate policy and technical progress).

The choice of supply options was harder to quantify in detail, but the different drivers in each scenario could be interpreted in terms of preferences. For example in both the "global" scenarios (World Markets and Global Sustainability) energy supply companies were assumed to be operating in a liberalised commercial market. This precludes the use of nuclear energy since the financial risks associated with investment in nuclear stations is regarded as too high for commercial companies. In the "regional" scenarios (Provincial Enterprise and Local Stewardship) the operating values encouraged national self-sufficiency which encouraged the use of local resources.

Striking conclusions from the scenarios included identifying the significance of old solid wall housing (although only 20% of the projected housing stock they accounted for 50% of domestic space heating demand) and the significance of air transport (the fastest growing sector with no sign of saturation). The scenarios also demonstrated the potential for improved energy efficiency in all cases.

Scenario development

In Practice 2: SU GM Crops Project

Why we used scenarios in our analysis

The GM Crops team used a scenario-based approach to consider the range of costs and benefits that could be associated with the growing, or not growing, of GM crops in the UK. The central purpose was to consider the relative costs and benefits of alternative futures for the UK (over a 10-15 year time scale), both with and without the commercialisation of GM crops on UK farms. The scenarios did not predict the future, nor did they have probabilities attached to them. However, all of the scenarios were scrutinised to ensure that they were plausible and internally consistent.

There were a number of reasons why a scenario approach was deemed appropriate for this study:

- The use of scenarios meant that a range of possible future outcomes could be considered, without having to pre-judge the most likely outcome for what was a controversial subject area.
- Many different factors needed to be taken into account in this study. Assessing each of these in the abstract could have presented a confusing and misleading picture. Tying the assessment to specific scenarios helped to avoid this.
- A scenario-based approach was helpful in capturing the dynamics of the costs and benefits associated with GM crops. There is a dynamic to each of the individual scenarios (see below), but in addition, it is possible to envisage that over time, the UK situation could evolve from one scenario into another.
- The scenario-based approach helped to inform the policy-making process, without having to make judgements about the "best" policy approach – which was outside the scope of the study.

How we developed our scenarios

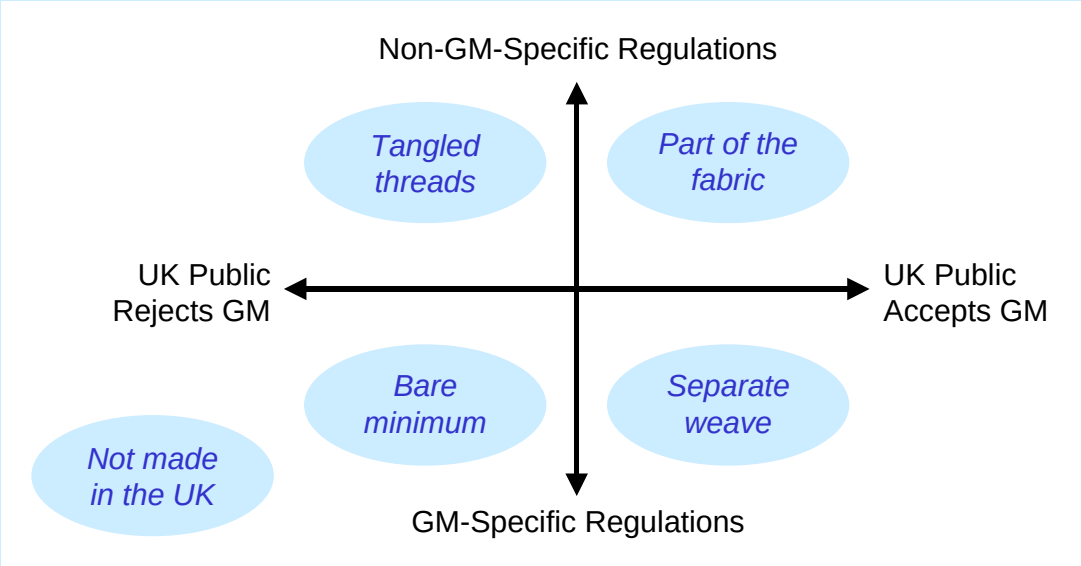
The GM Crops team ran a one-day "scenario workshop" involving about 25 stakeholders and experts. The workshop was facilitated by independent scenario experts. Its purpose was to identify the key issues that would need to be taken into account in scenario definition and, in particular, to identify the two axes that would be used to define our scenarios. The scenarios were subsequently developed by the GM Crops team, in the light of discussions with Expert Advisory Groups and other stakeholders. Draft outputs – and a note of the scenario workshop – were published for comment by the wider public.

Description of the scenarios

The scenarios represent possible future outcomes that could occur in about 10-15 years time. Four of the five scenarios were based around two axes:

- The *vertical axis* on regulations represents a range of possible regulatory regimes. At one extreme are "Non-GM-specific regulations", under which GM crops and foods are treated much like any other novel crop or food. At the other extreme are "GM-specific regulations", under which GM crops are subject to a comprehensive approvals process, conditions of use and monitoring requirements.
- The *horizontal axis* represents a range of public attitudes. Public attitudes are complex and heterogeneous. The axis covers a range from public attitudes which are broadly positive to GM, through to public attitudes which are broadly negative. A distinct fifth scenario looked at the possibility that the UK may reject GM crops outright. The scenarios are illustrated below.

Scenarios used in the Strategy Unit study



The role played by the scenarios in the final report

The five different scenarios played a crucial role in the final report. After we had defined the characteristics and conditions of each scenario, we considered the costs and benefits that would arise in each case. This enabled the study to highlight the importance of trade-offs and weighting of different costs and benefits. An example is attached at Annex A, for just one of the scenarios. As a final step, we also considered possible disrupters in each of the scenarios – how these might arise, how they would be dealt with and what the implications might be.

Lessons learned

Developing new scenarios is time-consuming - but definitely achievable. In some cases it will be possible to use "off the shelf" scenarios developed by other people. But in other cases, no existing scenarios will fit the bill. If so, it may well be worthwhile developing new scenarios, providing that sufficient time and resources are devoted to this exercise.

Scenarios are a tool, not an end in themselves. Scenarios should be defined and used in the way that is most helpful to the study - there are no right or wrong answers.

The importance of involving stakeholders and experts in scenario development. If scenarios are to be used, it is essential that they have widespread buy-in. The best way to achieve this is by giving the relevant people a "sense of ownership" of the scenarios.

This scenarios were crucially important in the GM study, where opinion was so polarised and we faced criticism that it was there to provide evidence for a predetermined Government decision to allow the commercialisation of GM. The scenarios illustrated that we were studying all possibilities, including a "no-GM" future.

The scenarios analysis enabled the SU to investigate whether government policy objectives could be supported across a range of possible outcomes.

Scenarios can be powerful tools - but they cannot do everything! Scenarios should be seen as a complement to other techniques, such as risk assessment or cost-benefit analysis - not as a substitute.

Scenarios need to have names! This may be one of the most difficult tasks in scenario development - but well-chosen scenario names are much more informative than 1, 2, 3 ... or A, B, C etc.

Strategy Skills > Building an Evidence Base

Looking forward - Counterfactual analysis

> **in practice**

Counterfactual analysis has theee broad aims:

- To establish evidence of a causal relationship between a new policy, or change in policy, and outcomes the policy seeks to influence
- To account for confounding factors, additional to the influence of policy, that might lead to measured change in outcomes
- To provide estimates of the impact of policy

What is it?

The counterfactual is an estimate of the circumstances that would have prevailed had a new policy or policy change not been introduced. By comparing counterfactual outcomes (often referred to as either control or comparison group outcomes) with outcomes measured for those units subject to the new policy or policy change, causality or attribution can be established.

A counterfactual analysis tool used by government to identify causality or attribution is the use of pilots. These enable the government to test new policies, or changes in existing policy, in a limited number of geographical areas prior to introducing them more widely. The objective is to determine whether the new policy gives rise to changes in the outcomes that policy seeks to alter. For example, counterfactual analysis might answer the question – is there a direct relationship between a new initiative to cut car crime and subsequent change in the number of reported car thefts, independent of other factor influencing car theft? Counterfactual analysis explicitly acknowledges the fact that the outcomes government attempts to influence are subject to a range of factors beyond the immediate scope of the policy being studied. For example, it can't necessarily be assumed that measures to cut worklessness are entirely responsible for an observed fall in aggregate unemployment.

Units exposed to the new policy or policy change are alternatively referred to as the programme, treatment or action group. In theory, causality can be attributed to the new policy because there are no systematic differences between the programme group and a 'true' counterfactual group, except for the fact that the programme group has been exposed to the new policy. Differences in average outcomes between the programme group and the 'true' counterfactual group therefore represents an unbiased measure of the programme's impact.

In reality, measuring the counterfactual is a difficult task. Evaluators use a variety of methods, depending on circumstances and opportunities open to them, to estimate the 'true' counterfactual. The following approaches can be used:

- Single group pre and post-test designs
- Two group pre and post-test designs
- Model-based econometric methods (simple regression adjustment, instrumental variables (IV), the Heckman selection estimator)
- Statistical matching designs (e.g., propensity score or cell matching)
- Interrupted time series analysis
- Regression discontinuity designs
- Randomised control trial (RCT) designs (alternatively referred to as random assignment, random allocation, experimental or randomised field trial designs).

It is the latter of these that is considered to be the most powerful method of establishing a net effect over and above the counterfactual. This is because programme evaluators explicitly construct control and programme

groups at random. In other words, the two groups are statistically equivalent, the only systematic difference between them being that the programme group has been exposed to the policy being investigated. Evaluators can randomly assign individuals, or other units such as institutions (for example hospitals or schools), or geographical areas (for example Wards, or Local Authority Districts).

At present, this approach, while commonplace in clinical trials, is less often used to evaluate social programmes in the UK, although there are examples. It is, however, widely used in North America to investigate the impact of various interventions from changes in taxation, welfare reform programmes, initiatives in education and criminal rehabilitation.

Strengths of random assignment

- If implemented correctly, it guarantees that the experimental and control groups will be identical. Thus it eliminates the influence of extraneous factors by ensuring that the only differences between the two groups arise by chance.
- Easy to interpret.

Weaknesses of random assignment

- Two groups are unlikely to be identical apart from some policy intervention .
- Only provides a measure of average impact.
- Can be complicated to implement correctly- two administrative systems are required.
- Can create political problems by denying services to controls.
- Risk of contamination if those in the control group are not prevented from participating in the pilot programme.

Many of these practical problems can be avoided if whole areas are divided into intervention and control groups, but for practical reasons this is usually difficult to do.

References

Cost Benefit Analysis, Boardman, Greenberg, Vining and Weimer (2001)

Research Methods for Policy Evaluation, Department for Work and Pensions, Research Working paper No 2. (Chapter 4 gives an excellent description of counterfactual analysis and the different methods available.)

Counterfactual analysis

In Practice 1: SU Waste Project

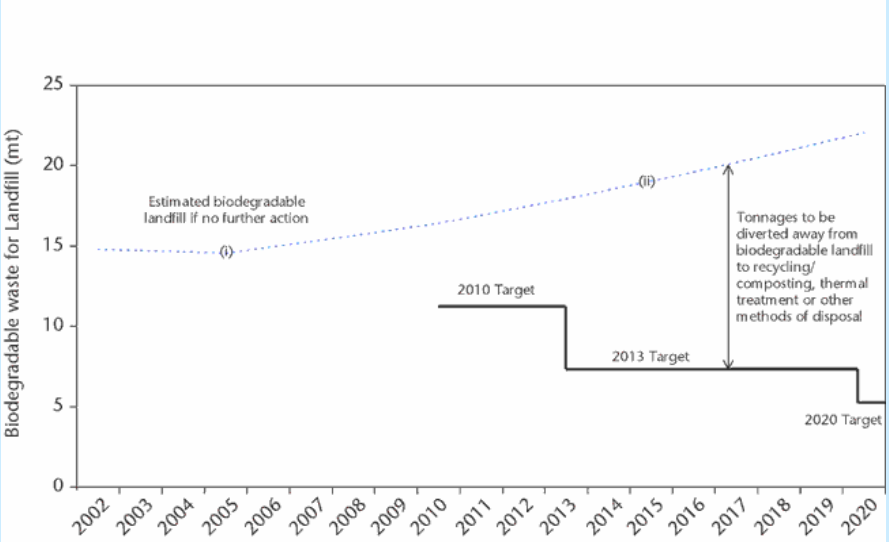
In choosing between options the impact of a "do nothing" option (i.e. what happens if current policies continue, or the counterfactual) must be considered. The waste team undertook such a counter factual analysis as part of their work.

To do this assumptions were made about future waste growth and waste composition (provided by a waste analysis expert working with the SU team). The team considered current waste funding and looked at the rate of progress over the last 5 years in recycling and incineration based on this funding. This showed that the recycling rate had been increasing at 1% per year and only one new incinerator had been built in the last 7 years. At this rate of progress, and without kerbside recycling or more bring sites, recycling was likely to remain below 25% of the waste stream even by 2015, notwithstanding the fact that this target was originally set for 2005. It was assumed that current levels of opposition to incinerators would continue and only those currently approved would get built.

This analysis established the amount of waste that would end up in landfill sites on unchanged policies and could be compared with EU Landfill Directive targets to which the UK was bound. It showed that, on unchanged policies, many more landfill sites would be needed, resulting in the UK falling further and further from meeting the Landfill Directive.

The chart below shows the results of the counter factual analysis, and the increasing gap between the Landfill Directive targets and the volume of municipal waste likely to be sent to landfill sites in England in future.

Estimated biodegradable waste for landfill in England versus the EU Landfill Directive targets (million tonnes)



Source: Strategy Unit analysis which (i) takes account of incinerator capacity coming on stream; and (ii) assumes incinerator capacity does not increase and all additional waste goes to landfill

Counterfactual analysis

In Practice 2: Jobseekers Allowance (JSA) interview

Random assignment was used to evaluate the introduction of a Restart interview for Jobseekers in 1989/90. Those claiming benefit for six months were invited to an interview to encourage return to work. 8,000 people were randomly assigned to receive an interview (intervention group), while 500 people were randomly assigned to the control group that was not interviewed. The trial measured the average time it took both groups to get a job. Those receiving a Restart interview spent 5% less time claiming benefit.

Strategy Skills > Appraising Options

Tools & Approaches

- Multi-criteria analysis
- Cost-benefit & cost-effectiveness analysis
- Rationale for government intervention

It is unlikely that there will ever be one 'correct' response to a public policy issue or problem. Different stakeholders, and even different members of the team, may hold differing views on the most appropriate strategy and policies for addressing it.

Taking a strategic approach to solution generation means resisting the pressure to jump directly to a solution, and instead taking the time to consider the alternatives and use a rational and reasoned process for selecting the most suitable, feasible, and acceptable option.

Taking such an open-minded approach will not only serve to incorporate divergent viewpoints in the process, but also open the possibility of forging hybrid solutions.

The three **criteria** of suitability, feasibility and acceptability should underpin the iterative process of generating, detailing and appraising options. At the outset they may be applied informally to guide and shape the thinking, but as options are worked up and the final selection approaches more structured and rigorous appraisal methods are needed.

Multi-criteria analysis provides a structured process for determining the criteria by which the options will be assessed and the relative importance of the each of the criteria. This then enables a single preferred option to be identified.

Alternatively, **cost-benefit & cost-effectiveness analysis** can be used to determine the net cost or benefit of each option using a single metric. All options with a net benefit are worth doing – the one with the greatest net benefit is the most worth doing.

Underlying the appraisal of options should be an evaluation of the **rationale for government intervention**.

Strategy Skills > Appraising Options

Multi-criteria analysis

> **in practice**

Once the preferred strategic direction has been determined and policy options to achieve that direction have been designed, analysis is needed in order to select the preferred policy option. Multi-criteria analysis can be used for this purpose.

The term multi-criteria analysis (MCA) is applied to a nested family of techniques, all of which enable policy options to be assessed against a range of appraisal criteria. The different MCA techniques include some or all of the following stages:

1. Identify policy options for analysis
2. Identify criteria against which options will be assessed
3. Assess options against criteria using quantitative or qualitative data
4. Score options against criteria on a consistent basis
5. Weight criteria and compare options
6. Carry out sensitivity analysis & revisit conclusions.

Process

The Process is extremely important to enable successful multi-criteria analysis. However many of the above stages are employed, a key characteristic of MCA is the exercise of explicit judgements – for example in choosing options and criteria, determining scores, and weighting criteria against each other. This requires an answer to the question, "Whose judgements are being used?".

In some cases it may be reasonable for officials or for Ministers to exercise these judgements. But in a climate of public suspicion of government, and lack of trust in institutions more generally, this may not deliver sufficient credibility. Hence a more appropriate approach may be to use the general public (for example in a "Citizens' Jury") or stakeholders (for example in "Stakeholder Workshops") to make the judgements that are necessary. A decision on the most appropriate process to employ at each stage should be made at the planning stage for the MCA.

1. Identify policy options for appraisal

MCA will typically be used to assess a number of options for achieving a policy objective, one of which should be a "do nothing" or "base case" scenario. Ideally, the starting list of options should be as comprehensive as possible. However, an iterative process may be necessary, in which new options are generated in response to the assessment of the initial options (e.g. if none of the initial options perform well).

2. Identify criteria against which options will be assessed

There are a number of different ways in which the range of possible criteria can be categorised, and each individual issue is likely to employ its own set of criteria. However, the criteria employed should certainly cover the:

- suitability
- feasibility
- acceptability
- risks of each of the options.

Risk can be defined as uncertainty of outcomes (whether positive or negative). There are two types of uncertainty: uncertainty that is a result of a lack of information, and uncertainty in terms of unpredictable

events. There are a number of different techniques for identifying risks, these include check lists, prompt lists, workshops, questionnaires and brainstorming.

Work from the **organisational analysis** should also feed into the development of the criteria, particularly those looking at suitability, feasibility and acceptability. Understanding the organisational structure and culture of the department can help in understanding the ease or difficulty with which new strategies can be adopted. Some consideration should also be given to whether the Department has the resources and competencies available to deliver a new strategy. The key areas to assess include:

- Availability of and sources of finance
- Skills: organisational, leadership, technical expertise
- Availability of physical resources e.g. buildings, offices etc
- IT capacity
- HR capacity.

The criteria should also encompass a range of different perspectives on the policy problem, including the following (where applicable):

- economic
- social
- environmental
- ethical
- legal
- scientific.

Sponsor, stakeholder and public attitudes should be reflected, together with relevant local, national (including the devolved administrations) and international perspectives. It should also include any specific values or principles that could underpin the success of future policy.

3. Assess options against criteria using quantitative or qualitative data

Once the options have been agreed and the criteria determined, assessing each option against each criterion brings them together. All available evidence should be employed, both quantitative and qualitative. The results are then typically presented in a matrix format. If a wide range of criteria is employed, then the quality and type of information available to make each assessment will vary considerably. This will mean that the results in turn will vary in nature, including:

- monetary values
- other quantified data
- rankings
- naïve descriptions (e.g. positive/neutral/negative).

In principle, the MCA could stop at this stage (though preferably including stage 6) and the matrix presented in its raw form to decision-makers. The exercise has added value by presenting and appraising options in a systematic and comprehensive way. But unless one option clearly dominates all the others, implicit judgement is still required. Subsequent stages help to make the judgements involved in decision-making much more explicit.

4. Score options against criteria on a consistent basis

Scoring takes place primarily as a pre-cursor to weighting, and is designed to present in a common format all of the results generated in stage 3. A typical approach is to decide a range of scores for each criterion, for example 0 (the lowest score) to 100 (the highest score). The end points are then fixed in relation to the raw results.

Example A: if the cost to the Treasury of an option varies from £1m to £10m, then a score of 100 may be assigned to £1m and a score of 0 assigned to £10m.

Example B: if options are ranked as "positive, neutral or negative", then a score of 100 may be assigned to "positive" and a score of 0 assigned to "negative", with "neutral" scored as 50.

Once end points are fixed for each criterion, intermediate scores are assigned, usually on a linear scale. The matrix can then be re-written using this common scoring basis.

5. Weight criteria and compare options

The next step is to determine relative weightings for each criterion. This is in many ways the most difficult stage, and may be where public and stakeholder input is most crucial – different groups will have very different weightings. There are a number of approaches. One often-used approach is to divide a number of points (typically 100) between the criteria, in line with their perceived weighting relative to each other. Alternatively, a more qualitative approach may be used (e.g. "essential" versus "desirable" versus "irrelevant").

Once weights have been assigned, they are used to adjust (quantitatively or qualitatively) the scores from stage 4, so that options can be compared. This should enable an explicit ranking of options to be carried out.

6. Carry out sensitivity analysis and revisit conclusion

The ranking emerging from stage 5 may well be sensitive to some relatively small variations in data, scoring or weighting. The presence of uncertainty makes it almost inevitable that the assumptions and judgements employed in the analysis are less than firm. Hence before any decisions are taken, it is essential that sensitivity analysis is carried out on each of these aspects of the analysis. The question to be addressed is: "Do the rankings stay the same when data, scoring and weighting is adjusted within reasonable bounds?".

Strengths

MCA can typically incorporate a wider range of criteria (e.g. social, environmental, ethical) than that employed in a typical financial analysis, and unlike a **cost-benefit analysis**, does not require monetisation of all costs and benefits. At the same time, it brings a systematic approach to appraising and comparing options with a wide range of quantifiable and non-quantifiable impacts, and is a more robust process than the implicit judgements that may otherwise be made.

Weaknesses

The main disadvantage is that – if carried out to its fullest extent – it can be a very time-consuming process.

References

HM Treasury's **Green Book**

Multi-Criteria Analysis – A Manual, appraisal guidance prepared for DETR by NERA, The Stationery Office (2000) ISBN 1 85112 454 3

The **Office of Government Commerce** Policy to Successful Delivery site provides some useful guidance on appraising options

Multi-criteria analysis

In Practice 1: SU Global Health Project

The **Global Health Project Matrix Framework** used by Global Health project to evaluate proposals assessed a number of proposed policy instruments against eight top-level criteria, beneath which were a number of sub-criteria. A matrix of scores was constructed, and the scores were then scaled to enable comparison, before the different criteria were weighted and the policy instruments compared.

Multi-criteria analysis

In Practice 2: SU Waste Project

Background and Approach

A central aim of the SU Waste Project was to identify a preferred option for meeting the EU Landfill Directive which sets tough targets for the diversion of biodegradable municipal waste from landfill sites (historically, the main method of waste disposal in this country).

As the UK lags most other developed leading nations in waste management, the first step in identifying a preferred option was to benchmark and study the various waste management options used by other nations. The options in use included actions: to reduce waste streams; to re-use waste; to recycle and; to develop alternatives to landfill such as incineration and mechanical and biological treatment (MBT).

The benchmarking work showed that countries varied in the use made of these different actions. However, most countries generally intervene at all stages of the waste hierarchy whereas debate in the UK has tended to focus on the choice between recycling and incineration with little attention paid to actions that would result in reductions in waste streams.

Building on this benchmarking exercise, the SU Waste team consulted with UK waste experts and drew on modelling work to examine a range of options for tackling UK waste. The first option was the status quo. The other options covered a range of waste management options with varying degrees of emphasis on incineration or recycling as well as more balanced packages of action. Each option had to be able to meet the requirements of the Landfill Directive.

The options are outlined below:

- **Option 1** – do nothing
- **Option 2** – High incineration (50% + incineration and 25% recycling)
- **Option 3** – High incineration (50% incineration and 35% recycling)
- **Option 4** – Maximum recycling (60% recycling and incineration at current levels 10%)
- **Option 5** – Reduce/recycle – a more balanced package of waste reduction, recycling, greater variety of residual waste technologies etc

A lowest cost option was also considered initially (but abandoned early on as it was judged to meet none of the environmental criteria and to be a step back from current government waste policy).

Choosing between the options

The options were compared using two analytical tools. The first of these examined the number of different waste facilities required for each option and the costs of those facilities over time. This allowed the present value cost of each option to be estimated over a 20 year period.

The second was adapted from an Environment Agency tool called "STOAT" – a Strategic Option Appraisal Tool. Essentially, this model is a multi-criteria analysis tool that allows one to analyse the benefits and risks of different waste management options including environmental impacts (e.g. C02 emissions, leeching), potential land use planning difficulties, consistency with public preferences and whether an option has been operated successfully in other countries. These criteria could be weighted in different ways to establish how this affected the preferred option.

An expert panel was used to assess the feasibility of each option as alternative ways of meeting the Landfill Directive and to assess the flexibility of each option (i.e. the extent to which it risked locking-in to one option). An overall judgement could then be made about the cost-benefit ranking of the different waste management options, and their respective strengths and weaknesses.

The options and the results of the analysis are summarised in table 1 below, which is taken from the SU waste report. It shows that a balanced package of measures with a focus on waste minimisation was judged the preferred option in cost-benefit terms (under a range of weightings for the benefits and risks).

Benefits and costs of alternative strategic approaches, 2002-2020

Option	Costs (£bn) [(a)]	Feasibility as a way to meet the Landfill Directive	Environmental benefits	Flexibility (avoiding locking-in to one option)	Ranking
Option 5: Reduction/recycle	29.6	✓✓✓	✓✓✓	✓✓✓	1
Option 3: High incineration (ii)	29.6	✓✓✓	✓✓	✓✓	2
Option 4: Maximum recycling	31.0	✓	✓✓✓	✓✓	3
Option 2: High incineration (i)	28.9	✓✓	✓✓	✓	4
Option 1: Status quo	27.4	x	x	x	5

✓✓✓ offers maximum benefits

✓✓ offers some benefits

✓ offers few benefits

X offers no benefits

Notes: (a) costs represent discounted waste management expenditure at local authority level from 2002 to 2020.

Source: SU Analysis

Strategy Skills > Appraising Options

Cost-benefit & cost-effectiveness analysis

> **in practice**

Cost-benefit and cost-effectiveness analysis sum up all of the costs and all of the benefits associated with an option using a common metric, typically monetary units. This enables the calculation of the net cost or benefit associated with an option. All options with a net benefit are worth doing - the one with the greatest net benefit is the most worth doing.

Cost-benefit analysis (CBA):

Cost-benefit analysis suggests that a monetary value can be placed on all the costs and benefits of a strategy, including tangible and intangible returns to other people and organisations in addition to those immediately impacted.

Decisions are made by comparing the present value of the costs with the present value of the benefits of the strategy. Decisions are based on whether there is a net benefit or cost to the strategy, i.e. total benefits less total costs.

Costs and benefits that occur in the future have less weight attached to them in a cost-benefit analysis. To account for this, it is necessary to discount, or reduce, the value of future costs or benefits to place them on a par with costs and benefits incurred today. The current recommendation is that public sector activity should generally use a discount rate of 6%. This means that £1 in one year's time will be worth $1 \div 1.06$ now; £1 in two year's time will be worth $1 \div 1.06^2$ and so on. The sum of the discounted benefits of an option minus the sum of the discounted costs, all discounted to the same base date, is the net present value of the option.

Cost-benefit analysis should normally be undertaken for any strategy project which involves policy development, capital expenditure, use of assets or setting of standards. Depending on the nature of the issue, it will sometimes be very quick and easy. At other times it will require full-blown economic analysis. There are no set rules as to the level of detail required, but it should reflect the significance of the options being assessed. CBA should typically take a broad view of costs and benefits, including indirect and longer-term effects, reflecting the interests of taxpayers and users of public services and those affected in other ways by public sector activity.

Although in practice monetary valuation is often difficult, it can be done and, despite difficulties, cost-benefit analysis is an approach which is valuable if its limitations are understood. Its major benefit is in forcing people to be explicit about the various factors which should influence strategic choice.

Cost-effectiveness analysis (CEA)

Cost-effectiveness analysis is an alternative to cost-benefit analysis. CEA is most useful when analysts face constraints which prevent them from conducting CBA. The most common constraint is the inability or unwillingness of analysts to monetise benefits.

CEA measures costs in a common monetary value (normally £) and effectiveness in physical units. Because the two are incommensurable, they cannot be added or subtracted to obtain a single criterion measure. One can only compute the ratio of costs to effectiveness in the following ways:

$$\text{CE ratio} = C_1/E_1$$

$$\text{EC ratio} = E_1/C_1$$

where: C_1 = the cost of option 1 (in £); and E_1 = the effectiveness of option 1 (in physical units).

Equation 1. represents the cost per unit of effectiveness (e.g. £/life saved). Projects can be rank ordered by CE ratio from lowest to highest. The most cost-effective project has the lowest CE ratio.

Equation 2. is the effectiveness per unit of cost (e.g. lives saved/£). Projects should be ranked from highest to lowest EC ratios.

The outputs to be ranked by cost-effectiveness analysis will often be social or environmental in nature. For example, work in health economics looking at the cost-effectiveness of different treatments, or work to assess the net costs of different ways of reducing greenhouse gases. As with CBA, the level of detail for the analysis will typically depend on the specific issue being addressed, but should take a broad view of costs and benefits to reflect public and taxpayer interests.

Process for carrying out a CBA/CEA

There are 5 core elements to carrying out a successful CBA or CEA:

- define the objectives
- identify the options (including a base case)
- identify and, if possible, quantify and value the costs, benefits, risks and uncertainties
- analyse the information
- present the results.

Strengths & Weaknesses

CBA and related techniques are tools to be used in decision-making - they provide a means of systematically and rigorously balancing the costs and benefits of different options. They should be used intelligently, making use of relevant knowledge and expertise. CBA can be essential in setting out the costs and benefits associated with different options, and in making a rigorous choice between them. But it is rarely sufficient on its own, because other, typically more nebulous, factors will also need to be taken into account. The option identified as "best" from a CBA does not always need to be chosen - but any departure from the "best" option needs to be very carefully justified.

CBA is based on conventional welfare economics, which provides a utilitarian account whereby value relies upon individual self-interest. In practice, people express defined preferences for a much wider set of public goals. Even though in theory this should be compatible with traditional welfare economics, in practice analytical techniques such as CBA rarely give proper recognition to these wider public preferences.

In carrying out a CBA, there are probably two main pitfalls to avoid:

- The first and perhaps most serious is *missing out some key options, or some key costs and benefits*. If this occurs, the results of the analysis can be significantly skewed away from the actual "best" option. The way to avoid this is to spend some time making an exhaustive list of the options, and then all the different costs and benefits that could arise - even if some are later excluded.
- The second potential pitfall is *relying too much on the data*. Information on costs, benefits and risks is rarely known with certainty, especially when one looks to the future. This makes it essential that *sensitivity analysis* is carried out, testing the robustness of the CBA result to changes in some of the key numbers.

References

The Treasury Green Book is the main source for information on CBA and other appraisal techniques. This also contains a bibliography of other material.

The Civil Service College runs courses on cost-benefit analysis and related techniques. Details are available via the **CMPS** website.

Cost-benefit & cost-effectiveness analysis

In Practice: SU Childcare Project

The objective of the study was to provide a value for money analysis of Government investment in different types of childcare. The choice was between higher cost "integrated" childcare centres, providing a range of services to both children and parents, or lower cost "non-integrated" centres that provided basic childcare facilities.

In order to undertake a full cost-benefit analysis data must be available which allows the full costs and benefits of the policy to be converted into monetary units. This was not possible, owing to a lack of detailed evidence in all areas of the policy, and so in the case of the childcare review the team undertook a dual track approach:

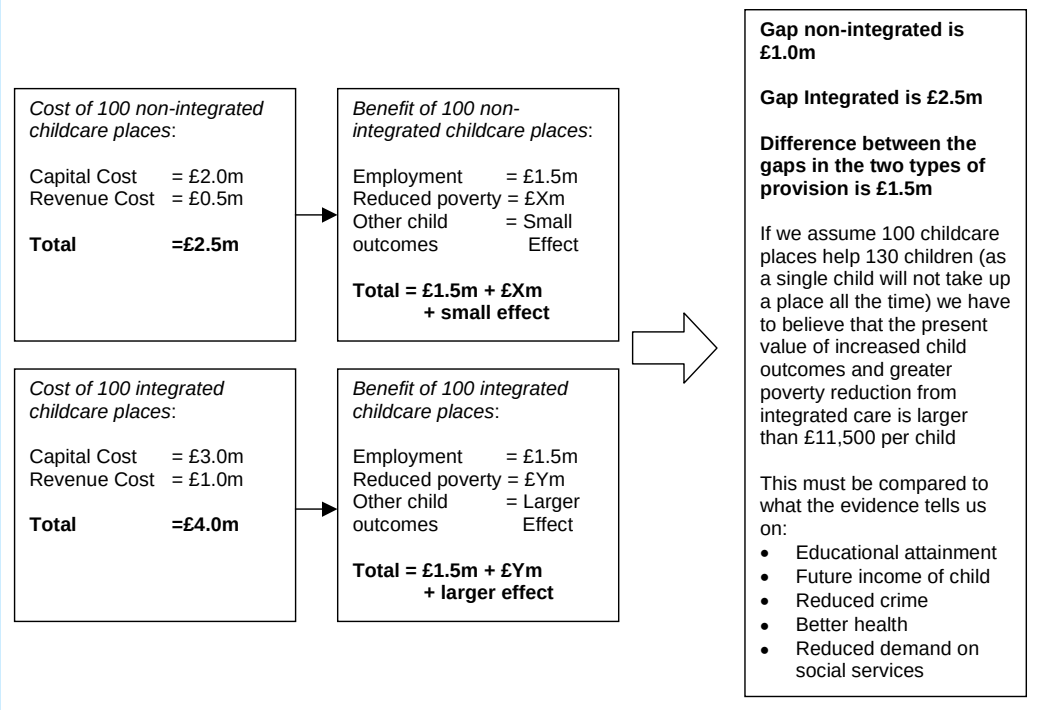
- *A partial cost-benefit analysis*: to allow us to compare integrated and non-integrated childcare for areas where detailed evidence was available.
- *A variant of cost-effectiveness analysis*: to allow us to compare childcare to other policy areas such as employment, education and crime, where the evidence allowed us to quantify intermediate outputs from policy (e.g. improved educational attainment aged 18) but not the final outcomes of the policy (e.g. better overall life chances, higher skilled workforce and higher economy wide productivity growth).

For both analyses there was a 'hard exercise' and a 'soft exercise'. The hard exercise identified, quantified and monetised direct costs and benefits. The soft exercise identified and described qualitatively non-monetisable impacts leading to option ranking.

There are always caveats involved in cost-benefit analysis and many assumptions were necessary:

For example an important assumption had to be made about the governments targeting of policies. A single childcare place will provide a 'bundle' of outcomes from increased parental employment levels to reduced future crime rates and improved educational attainment owing to better child development. These outcomes cannot be separated and so must be analysed together. However, in reality the provision of an additional childcare place may not achieve additional outcomes in all of these areas. A child may already be at very low risk from committing future crimes but their parents may use a childcare place so that they can return to work. In this case an additional employment benefit would be realised but no additional benefit from reduced future crime rates. An ex ante value for money analysis says nothing about whether the benefits of a future policy will actually accrue to targeted populations. In this analysis we calculated the full costs and benefits of the childcare place and then assumed that government would have to target programmes sufficiently to minimise loss from benefits that would have occurred anyway.

An Example Partial Cost-Benefit Analysis template is shown below:



Note: For sensitivity reasons the figures below are illustrative and do not represent numbers actually used in the Childcare Review

In this illustrative example the quantifiable employment benefits are not sufficient to cover the total cost for either integrated or non-integrated childcare. The gap between costs and benefits for integrated childcare is £2.5m compared to £1m for non-integrated childcare. Thus for the government to choose to promote integrated childcare the 'soft exercise' would have to provide sufficiently strong evidence that the reduced poverty and other child outcomes (Y + larger effect) were greater than:

- The £2.5 million gap between the full costs and benefits of the integrated places
- The £11,500 difference per child from reduced poverty and other child outcomes given by non-integrated childcare (X + small effect)

> See a full explanation of the **Childcare value for money analysis**

Strategy Skills > Appraising Options

Rationale for government intervention

> **in practice**

Identifying the rationale for government intervention is crucial to deciding when – and in what ways – governments need to get involved.

The current draft of the HM Treasury **Green Book** identifies two basic justifications for government intervention:

- The enhancement of economic efficiency by addressing problems with the operation of markets and institutions
- The achievement of a social objective, such as promoting equity.

The existence of a problem does not in itself justify government intervention. Government itself does not function perfectly, and any form of government intervention may impose costs. This means that even when markets do not work effectively to deliver desirable goals, government must compare the costs of failing to deliver those goals against the potential costs of the intervention.

There are four key stages to justifying the rationale for government intervention:

1. Identify the set of policy goals to be achieved
2. Identify why these goals may not be delivered without government activity
3. Identify what actions are available to government in order to deliver the desired outcomes
4. Consider whether the costs of government intervention are justified.

1. Identify the set of policy goals to be achieved:
This involves an assessment of the government's strategic goals and objectives, and the way in which they are translated to individual policy areas.

2. Identify why these goals may not be delivered without government activity:
Economists identify two broad types of reason why government activity may be required:

(I) Market failure, of which there are several types:

- **Imperfect competition (market power)**. Economic theory demonstrates efficient outcomes will be delivered only where markets are actually or potentially competitive. As soon as there is an element of monopoly (on the side of the seller) or monopsony (on the side of the buyer) power that can be exercised, a less efficient outcome will occur. This may arise because of the natural characteristics of the market (e.g. very high costs of entry) or through strategic behaviour by incumbents (e.g. predatory pricing).

- **Externalities**. Externalities result when a particular activity produces benefits or costs for other activities that are not directly priced into the market. When this happens, the amount of the particular activity that takes place will generally be inefficient. Externalities can be "positive" or "negative". An example of a positive externality is the spill over effect into other areas that can occur as a result of research and development activity. A company or research institution will generally decide its level of R&D on the basis of the benefits that it can capture – ignoring benefits that might occur elsewhere. An example of a negative externality is pollution of the environment. A company or individual may reduce its own costs by failing to implement pollution controls, but this will generally impose costs on those affected by the pollution..

- **Information failures**. The effective operation of markets relies on the fact that all the participants in the market have complete and perfect information relevant to that market. When this information is not available to all participants, this is described as asymmetry of information, and market failure can arise. Information asymmetries lead to sub-optimal outcomes. For example, a buyer may not have full information on the characteristics of a product or service he/she wishes to buy – this is known as adverse selection.

- **Public goods**. Markets work effectively to provide private goods and services, which are typically rival and excludable in nature – i.e. each specific item or service can only once be sold/bought, and once purchased, can be exclusively "enjoyed" by the purchaser. In contrast, public goods and services are non-rival and non-excludable – if one person purchases the good or service, that does not stop others from purchasing it; and there is generally no way to stop people from enjoying the good or service. True public goods and services are comparatively rare, but the provision of national defence and of law and order are typically used as illustrations.

(II) Equity, which is to do with the delivery of social or distributional objectives. Even where markets are working efficiently, they may result in a distribution of income (or other benefits/costs) that is unacceptable to society. This will often arise through a lack of incentives to improve equity, or because the necessary information is available only to government.

3. Identify what actions are available to government in order to deliver the desired outcomes:

As well as providing a useful checklist for justifying government activity, the issues outlined above can also be helpful in pointing towards the type of activity that government might want to undertake – Stage Three of the process. Government intervention should typically be directed at tackling the particular market failure that is occurring, or at delivering the specific social objective in question. A wide range of interventions is available to government, and it will often be appropriate to consider several options. Examples include tax incentives, grants, loans, and information campaigns.

4. Consider whether the costs of government intervention are justified:

There are two separate aspects to this stage of the process:

- The first stage is to identify the additional benefits that would arise as a result of government intervention. The concept of additionality is important – what should be measured is not the gross benefit, but the benefit net of what would have happened without intervention.
- The second stage is to identify the negative impacts of the government intervention. These negative impacts may include the direct costs of the intervention, but they may also include further negative impacts arising as a result of "government failure" – i.e. it is possible that government will get its intervention wrong, or that the intervention will have unintended consequences.

Only if the net benefit of intervention outweighs the costs of intervention is government action justified. In practice, this stage of the process may form part of the economic appraisal of the options for intervention, either through **cost-benefit/cost-effectiveness analysis** or through **multi-criteria analysis**.

Strengths

Using this four stage process – and in particular the list of market failures – is a good way of checking whether or not government should be involved in an issue.

Weaknesses

If applied incorrectly, the approach does contain pitfalls. For example, it is important to be sure that the net benefits of government intervention justify the costs. And even if an individual intervention is justified, it is also necessary to consider the overall burden imposed by government intervention – there may be a case for focusing intervention only on priority policy areas, so as to avoid "micro-management".

References

Micro-economics or public economics text-books include chapters on the basic market failures and how they should be dealt with.

HM Treasury Green Book and HMT micro-economics courses

For further material, see the **Rationale for Government Intervention in Delivering Public Services**

Rationale for Government intervention

In Practice 1: PIU Resource Productivity Project

Throughout the resource productivity report, **Resource Productivity: Making More with Less (PIU, 2001)** there are examples of the above approach as a justification for Government activity. Examples include:

- Barriers to progress in improving resource productivity: section 1.4.1
- Externalities and other barriers associated with innovation: section 2.4
- Failure to properly take into account the full impacts of economic decision-making: section 3.4
- Long-term uncertainty: section 4.2.1

However, the report also highlights the fact that there is a lot that businesses and households could and should be doing to improve resource productivity – and where this is the case, Government's role should be relatively "light touch".

Rationale for Government intervention

In Practice 2: PIU Lending Support Project

Section 3 of the report **Lending Support: Modernising the Government's use of loans** (PIU 2002) proposed criteria for assessing the rationale for Government intervention.

Strategy Skills > Planning Delivery

Tools & Approaches

- Change management
- Institutional change
- Designing an implementation plan

The development of strategy and the planning of its delivery should never be discrete or sequential tasks. Rather, an understanding of the delivery environment, particularly any constraints, should inform strategy work, such that only implementable strategies are developed.

It is important that the strategy team have a realistic expectation of the degree of change that their strategy will require and confidence that this can be achieved. Realising the full benefit of these changes will require an active approach to **change management**.

New policies often require **institutional change**, through changes to the structures, processes and culture of an organisation. It may be appropriate in certain circumstances to create and entirely new organisation to deliver the new strategy.

Given the significance of the delivery process to the success of the strategy, no strategy project should conclude without an agreed implementation plan. **Designing an implementation plan** is a means of documenting what needs to change, assigning responsibilities, and imposing deadlines.

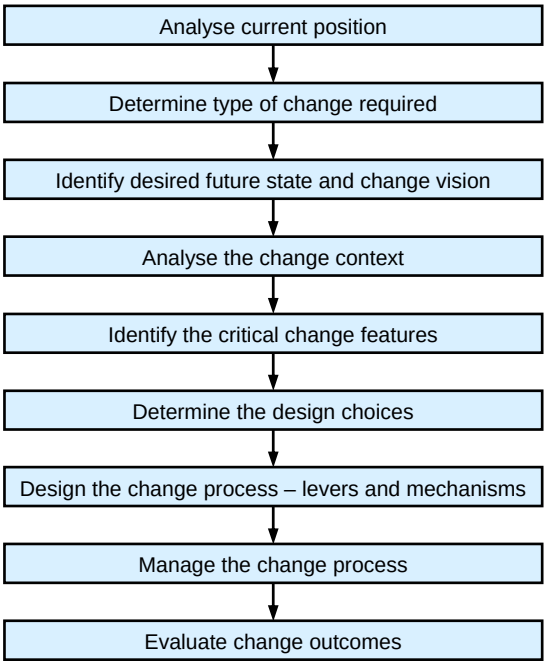
Strategy Skills > Planning Delivery

Change management

> **in practice**

Because creating lasting change can be complex and difficult, successful implementation of the new strategic direction should be based on a clear strategy or plan, with senior level commitment to creating change. It is also important to ensure that the organisation has the capacity to deliver the desired outcome. Unless these issues are explicitly addressed as part of the implementation of a new strategy or policy, most change programmes will fail to deliver their full benefits.

Organisational change management can be thought of as a process with a number of steps, which have to be followed broadly in sequence to create successful and lasting change. One way of visualising this process is as a flow chart:



The first three stages in this process rely on the analytical work which is needed to create a robust case for change, leading up to a clear vision of the desired strategic direction. This will have been determined through the first three phases of the strategy development process.

Before embarking on the subsequent stages it is worth assessing the extent of the change required to achieve the vision. This can be defined in terms of two dimensions – the desired end result of the change, and the nature of the change. The desired end result can either be transformation – that is, fundamental change within an organisation; or it can be realignment - a less fundamental but still potentially substantial change to the organisation. The process itself can either be incremental – spread out over time; or a "big bang" implementation.

		End Result	
		Transformation	Realignment
Nature	Incremental	***Evolution***	***Adaptation***
	Big bang	***Revolution***	***Reconstruction***

The resulting types of change vary in scope. Adaptation and reconstruction do not fundamentally challenge an organisation's beliefs, and so are often easier to achieve. Evolution can take a long period of time, but results in a fundamentally different organisation once completed. Revolution is likely to be a forced, reactive transformation using simultaneous initiatives on many fronts, and often in a relatively short space of time.

It is essential that those responsible for creating the change are aware of the implications of the type of change they are trying to achieve. This can only be done by carrying out a detailed analysis of the context within which change will sit. Useful features to assess when determining context include:

- *Time scale*: how quickly is change needed?
- *Scope*: what degree of change is needed?
- *Preservation*: what organisational resources and characteristics need to be maintained?
- *Diversity*: how homogeneous are the staff groups and divisions within the organisation?
- *Capability*: What is the managerial and personal capability to implement change?
- *Capacity*: what is the degree of change resource available?
- *Readiness*: how ready for change are the staff?
- *Power*: what power does the change leader have to impose change?

Some of these dimensions can be assessed relatively easily, e.g. time and scope. Others are likely to require more direct consultation with front-line staff and other stakeholders, for example assessing organisational readiness for change. The **organisational analysis** already undertaken in the **Research and Analysis** phase should have laid the groundwork for this task.

If the organisation has a low capacity or readiness for change, this could negatively impact the success of the new strategy. Depending on what is hampering change, the first approach should be to assess whether it is practical to change the organisation to deliver the new strategy e.g. through additional training and re-organisation or through recruitment of staff with suitable skills. Only if this is impractical or excessively costly, should the project team consider changing the policy objectives. This situation should not arise if the organisational analysis was adequately considered during the policy development phase.

Key Success Factors

At all stages of the organisational change flow chart there are some "Golden Rules" which should be followed in order to create successful change:

- Compelling vision for action
- Committed leadership
- Rigorous project management
- Securing stakeholder support
- Effective communications
- Infrastructure alignment.

Compelling vision for action – the most important starting point for any change programme is to have a clearly documented case for change based on rigorous analysis. This should set out why action is needed, and how the proposed action will add value. It should also set out a new and compelling vision, articulated in such a way as to engage stakeholders.

Committed leadership – at all levels of the organisation, in particular with strong and visible support from senior management. The change programme should be sponsored by high calibre and credible managers, and led by capable line managers.

Rigorous project management – the organisation needs to commit the right resources to making sure the change programme is delivered on time. Project team members should have clear accountabilities for delivery of project outcomes, using disciplined and well-managed project processes. They should use rigorous project plans, including milestones, timeframes and risk assessments, and should have monitoring mechanisms in place to track progress.

Stakeholder support – it is critical to identify key stakeholders and engage them with the change programme. This does not just apply to senior stakeholders, but also to staff members whose participation in the change programme will be essential. Clear, consistent and persuasive communication is needed to share the new vision with stakeholders, to keep them updated on progress, and to ensure that they are aware of their own role in the process. Depending on the magnitude of the change, it can often be a good idea to have a system in place to monitor morale and attitudes in the organisation during the change programme.

Effective communications - there are a different elements of the change programme which will need to be communicated to front-line staff and other key stakeholders including, potentially, the public. These will include reasons for the need for change, what the change is intended to achieve or what is involved in the changes. Communication will also help minimise the risk of rumours, gossip and storytelling. It may be important to clarify and simplify further the priorities of the strategy. A three-theme approach is often advocated, emphasising a limited number of key aspects of the strategy, rather than expecting to be able to communicate the overall complexity and ramifications. Communication also needs to be a two-way process. Feedback to communication is important, particularly if the changes to be introduced are difficult to understand, threatening or if it is critically important to get the changes right.

Infrastructure alignment – change has to be backed up with appropriate elements of infrastructure to support the new arrangements – particularly budgets, performance metrics, HR policies and processes and IT resources. It will also be important to ensure that there are sufficient staff with the relevant skills in place.

Strengths

The only way to deliver lasting change is through a rigorous and well-designed change management programme carried out during implementation of the new strategy or policy. This is a highly complex area, which gets proportionately more difficult depending on the extent of the change and the number of people involved. Ensuring that all the factors listed above have been explicitly addressed in the transition to implementation phase of strategy work will help to create lasting change.

Weaknesses

There are a number of pitfalls that could jeopardise successful change:

- Lack of clarity around the new vision.
- Lack of senior commitment to change.
- Overestimating the ability of the organisation to deliver the new vision.
- Underestimating the time required to create the change, particularly if change in culture is required.
- Failure to design processes, structures and incentives that reward change.
- Lack of attention to stakeholders to ensure they are fully committed to the new vision.
- "Change fatigue" – organisations have been subjected to so many change programmes that they disengage.

References

Many of the frameworks in this short piece have been drawn from "*Exploring Strategic Change*" by Julia Balogun and Veronica Hope Hailey (Prentice Hall, 1999), which is a good source of further advice on these topics.

"Exploring Corporate Strategy" by Gerry Johnson and Kevan Scholes. Chapter 11 on Managing Strategic Change provides pointers to successful change management.

Effecting Change in Higher Education from the University of Luton contains articles, theories, tools, case studies and other materials related to change which draw on experience from inside and outside the HE sector.

Change management

In Practice: SU Waste Project

This project was tasked by the Prime Minister with addressing what more could be done to reduce the growing quantities of municipal household waste going to landfill and to meet the EU Landfill Directive. In order to assess the scale of the challenge, and how the transition to a more sustainable waste management system could best be managed, the project was organised into a number of distinct phases.

At the outset of the project in November 2001, a Waste Summit of key stakeholders from across central and local Government, the waste industry and NGOs was held. This provided valuable material on the scale and nature of the waste problem and options for overcoming it.

A scoping note setting out the key issues to be addressed was published on the Strategy Unit web site in December 2001 and included a consultation page, inviting comment on the degree of change required. Following this, a series of workshops and bilaterals were held with stakeholders and experts to consult on the pros and cons of waste management options. Many stakeholders felt that the Government had made a start in tackling the waste problem (for example by introducing statutory recycling targets for local authorities) but that much more of a focus was required on delivery mechanisms if England was to meet the high diversion rates from landfill required by the EU Landfill Directive.

The team then reviewed the economic and regulatory frameworks for waste management used by other nations. They found that there were significant lead times involved - countries which had developed sustainable waste management systems had taken 10-15 years to do so. This helped the team press the case for prompt action to address England's waste problems, despite the Landfill Directive not coming into effect until 2010.

Some visits were made to local authorities to ask for their views on the main barriers to progress and the main options for taking forward more sustainable waste management. The most important elements of change that local authorities wanted to see included a new economic and regulatory framework (particularly a rise in the rate of landfill tax and reform of the Landfill Tax Credit Scheme to help incentivise and fund alternative waste treatment options).

Community sector representatives were asked their views on how ready the public was for change. MORI was also commissioned to carry out some focus group research into public perceptions of the waste problem and attitudes towards reducing household waste and recycling. The project team found that the case for action was accepted by the public, who when presented with choices between different waste management options, wanted more opportunities to recycle. However, the public also said that the provision of more convenient recycling facilities would be key to their take-up. As a result, widespread kerbside recycling together with a national communications strategy became important facets of the report's recommendations.

Throughout, the team also collated data from experts and developed models in order to analyse the costs and benefits of different options looking into the future.

Drawing on the outcome of all these phases, the project team was able to work up and present a vision for sustainable waste management and a strategy for achieving it, including the change required to funding requirements, the economic and regulatory framework, and delivery structures.

Strategy Skills > Planning Delivery

Institutional change

> **in practice**

The implementation of new policies often calls for changes to existing institutions, or the creation of new organisations. Institutional change is therefore an important part of detailed policy design, involving structures, processes and cultures.

It can be harder to create institutional change within an existing organisation than to create a new body, whose culture and approach can be specifically designed around required activities. Conversely, structural change can be time-consuming and divert scarce resources and energy. Further guidance on planning for organisational change can be found under **organisational analysis** and **change management**.

The extent of the institutional change required will depend on the degree to which the new policy differs from current policies. At the simplest level, a new policy can be incorporated within the work of an existing department, while at the most complex level a whole new organisation may need to replace one or more existing departments.

In all instances, however, there are a number of common criteria that should be assessed, whether designing a new institution or changing an existing institution to deliver a new policy:

- What is the role and remit of the new institution? How should it meet the needs of its consumers and users?
- How is the new institution distinct from other institutions? Will it replace existing structures or is it entirely new? How should it work with related bodies?
- To whom is the new institution accountable? What performance measures need to be introduced? What are the Ministerial reporting arrangements?
- How should the new institution be organised? What internal governance structures are required?
- What capabilities are required within the new institution? How are suitable employees to be identified, recruited and trained?
- What capacity does the new institution need (in terms of caseload, number of users etc.)?
- How will employees of the new institution be incentivised to deliver its objectives?
- What infrastructure will the new institution need (IT systems, premises, vehicles etc.)? Can these be adapted from existing organisations or must they be built from scratch?
- What funding does the new institution need? What are the possible sources of funding? Will existing funds be redirected or are new funds needed?

There may well be options under each of these criteria, so it is important to make explicit trade-offs between different approaches. One way to do this is to generate a number of alternative structures for the new institution, which can then be discussed with key stakeholders to select the final organisational design.

It is also important to consider the degree of difficulty involved in creating the new organisation – this should be one of the criteria that is taken into account when deciding on the final organisational design. A key part of this is ensuring clear communication with all staff who are involved, particularly if an existing institution is being changed.

Strengths

- Ensures that the organisation which will be responsible for implementing a new policy has the right skills and resources to do so.
- Makes explicit the trade-offs between various approaches.

- Ensures that the accountability, governance and incentive structures of the new institution are focused on delivering its objectives.
- Demonstrates commitment to delivering the objectives of the new policy.

Weaknesses

- While it is relatively straightforward to design an organisation on paper, creating a new culture and working style is extremely challenging. It is important to allow the managers of the new institution the chance to take part in the design of the final structure, and to adapt it if necessary once it becomes operational.
- Institutional change can have serious implications for individual's careers. Correct HR procedures should always be followed to ensure that all employees are treated in an appropriate manner.
- New institutions will create new boundaries and new interfaces, which need to be mapped, understood and managed.

Pitfalls

- Not "sizing" the new institution correctly, so it ends up over or under resourced.
- Not taking into account the possible reaction of existing stakeholders to a new body.

Institutional change

In Practice: SU Childcare Project

The SU Childcare project envisaged a new role for local authorities in the provision of childcare:

A detailed audit of existing delivery structures was carried out by the Childcare team: the team mapped out existing policies, funding mechanisms, and delivery mechanisms from the perspective of the different organisations – including those who directly consumed or provided the services.

As part of that audit work, the team mapped out the accountability arrangements: it was important to establish who was accountable for what, and how responsibilities were reinforced or undermined by the governance structures and reporting requirements.

The analysis was bottom up: the team started with delivery structures on the ground, and then looked at how they related to structures within central government.

The team agreed their findings with key stakeholders: it was useful to discuss and agree the diagnosis of the problem(s) before developing policy options and recommendations. This also allowed key stakeholders to agree the relative priority of the problem areas.

The team considered and discussed a wide range of options: it was important to discuss a number of options, including more radical structures. Each was assessed against the key objectives, wider policy developments, and ease of implementation. We deliberately held back from defining options until other elements of the policy package had been agreed so that we were clear about the objectives of institutional change.

The team were all clear about implications: as it became clearer which options related to which elements of the diagnosis, it was important to be clear about what this would mean: opportunity costs and ease of implementation, resource implications, performance management and use of incentives to drive performance, monitoring and evaluation.

The team then sought a steer from Ministers: Ministers were then invited to agree the relative priority of problem areas and where this led in terms of policy responses.

Strategy Skills > Planning Delivery

Designing an implementation plan

> **in practice**

The **change management** planning process considers the overall changes required to achieve the desired strategic direction. As part of this, it will be necessary to prepare a detailed implementation plan. This will help to ensure that those responsible for implementation are aware of exactly which activities are required, by whom and by when. It will also assist monitoring and evaluation of progress in implementation.

The aim of the plan is to ensure agreement for each specific recommendation on:

- what needs to happen
- by when
- lead responsibility for delivery
- potential risks to delivery
- who else needs to be involved.

The process for agreeing an implementation plan can help to deliver ownership and buy-in, not only to specific tasks but also to the overall conclusions of the project.

There are a number of ways to approach implementation planning, depending on the overall objectives of the project and the nature of the project outputs. Some projects will contain an implementation plan as an annex to a final report. Others may separately agree an implementation plan with the relevant departments responsible for implementing the recommendations. The nature of the plan may also differ between projects. For example some may contain very specific timed actions while others may create a framework for further action and thinking.

Whatever the context, the following steps should be taken when defining an implementation plan:

- *Define structure:* an implementation plan can take a number of different forms. The product may depend to a significant extent on what other stakeholders need or want. The more specific a plan can be, the better. As a minimum an implementation plan should be clear about who is responsible for delivering what by when.

- *Define the outputs/recommendations and the tasks required for implementation:* clarifying what is required and breaking this down into specific actions. For example any single conclusion from a project may lead to a range of outcomes, a number of specified outputs, and many clear activities and deliverables. The aim should be to define specific, measurable, achievable, realistic and timed (SMART) tasks.

- *Define the milestones:* be clear about the critical outputs and outcomes and the key milestones to achieving them.

- *Define the sequence:* some tasks and outputs may be inter-dependent. It is important to map out the inter-dependencies and ensure that tasks and events are properly sequenced.

- *Clarify and agree responsibilities:* the process of designing and agreeing an implementation plan can form a key component of the overall objective of securing stakeholder buy-in to a project's conclusions. Ultimately the responsibilities for delivering tasks should be clear and agreed by all key stakeholders.

- *Identify potential risks to delivery:* there are likely to be risks to delivery of the strategy. By conducting a risk mapping exercise, to identify the likelihood and impact of potential risks, plans can be put in place to mitigate any high probability, high impact risks.

- *Be clear about the monitoring and evaluation arrangements*: part of the implementation planning process should consider what success might look like. A plan might specify success criteria and key issues and mechanisms for monitoring and measuring progress; alternatively a plan could be clear about the need for the lead Department to design a monitoring and evaluation framework within a specified timetable.

- *Document agreements:* the process of putting together an implementation plan, and securing agreement from key stakeholders, will be critical in ensuring that conclusions are put in to practice. The outcome of this process should be written up and shared with stakeholders as a document through which further progress can be monitored and chased.

It is important to start thinking about implementation very early in the strategy development process. Working to achieve buy-in from those responsible for implementation during the strategy development process will make actual implementation much easier. Ideally, there would be someone on the project team who will be responsible for implementation and for designing the implementation plan.

Similarly, designing an implementation plan can take time. Sufficient resources should be allocated to do the task properly. Unless it is factored into the project plan, key team members may have left before implementation is considered.

Strengths

- Helps ensure that the project is implemented in an effective and timely manner.
- Connects general conclusions to specific actions.
- Process for agreeing a plan can help achieve stakeholder buy-in.
- Holds stakeholders to account to deliver specific tasks.
- Sets a framework for monitoring and evaluation.

Weaknesses

- Stakeholders can get immersed in the detail to the exclusion of getting to grips with the bigger picture.
- It can be easy and tempting to agree a plan that is too bland to have any real meaning...
- ...But a detailed implementation plan can lead to difficult negotiation. There is a risk that some aspects may be fudged.

References

The **Policy to Successful Delivery website** within the Office of Government Commerce Successful Delivery Toolkit site provides additional guidance on delivery planning.

The online **Prime Minister's Delivery Unit (PMDU) Toolbox** also provides information on how the Prime Minister's Delivery Unit works, tried and tested ways of working to help strengthen delivery and communication between PMDU and departments. It includes guidance on the production of delivery plans. This was produced for PSA target owners but it provides information that may prove helpful in the development of implementation plans.

The **Risk Support Team** at HM Treasury provides guidance on managing risks to the public.

Designing an implementation plan

In Practice: SU Childcare Project

- The Strategy Unit Childcare project team specified the need for an implementation plan at an early stage: stakeholders were clear that an implementation plan would be one of the final deliverables from the project, and felt that they could own the process.
- The team involved key players in thinking through implementation: they set up working groups on specific project strands and specified the key deliverables. They delegated as much of the detailed work as possible to the lead players to establish ownership and buy-in to the specific tasks as well as the overall conclusions.
- The team presented the plan in a tabular form: the plan specified key conclusions, outputs, activities, lead responsibility, key stakeholders, and timetable. For the Ministerial version the team inserted an additional column for further comments.
- The plan was published as an annex to the report: so that key stakeholders could be held to account for delivering against it.

See the Implementation Plan in Annex 2 of the **Delivering for Children and Families Strategy Unit Report 2002**

External Links

Adoption Review
http://www.number10.gov.uk/output/Page3675.asp

Alternatives to Regulation
http://www.cabinet-office.gov.uk/regulation/ria-guidance/content/alt-regulation/index.asp

Bank of England Monetary and Financial Statistics
http://www.bankofengland.co.uk/mfsd/

Better Policy Delivery and Design
http://www.number10.gov.uk/files/pdf/betterpolicy.pdf

Brainstorming
http://www.brainstorming.co.uk

Business Dynamics: Systems Thinking and Modelling for a Complex World.
http://web.mit.edu/jsterman/www/BusDyn2.html

Campbell Collaboration
http://campbell.gse.upenn.edu/

CIA World Factbook
http://www.cia.gov/

Childcare project issue tree
http://www.strategy.gov.uk/su/survivalguide/eg/issuex.pdf

Childcare value for money analysis
http://www.strategy.gov.uk/su/survivalguide/eg/costchild.pdf

CMPS
http://www.cmps.gov.uk/

Cochrane Collaboration
http://www.update-software.com/cochrane/cochrane-frame.html

COI Communications
http://www.coi.gov.uk/

Collective Agreement
http://www.cabinet-office.gov.uk/cabsec/2003/guide/index.htm

Comunidad de Madrid
http://www.comadrid.es/

Consultation Code of Practice
http://www.cabinet-office.gov.uk/regulation/Consultation/Code.htm

Contact the Strategic Capability Team
strategic.capability@cabinet-office.x.gsi.gov.uk

Creating Public Value
http://www.number-10.gov.uk/su/pv/public_value.pdf

Creativityatwork
http://www.creativityatwork.com/

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Delivering for Children and Families Strategy Unit Report 2002
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Econlit
www.econlit.org

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Effecting Change in Higher Education
http://www.effectingchange.luton.ac.uk

EPPI-Centre Library
http://eppi.ioe.ac.uk/EPPIWeb/home.aspx

ESRC Evidence Network
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Eurobarometer
http://europa.eu.int/comm/public_opinion/standard_en.htm

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Financial Times
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http://www-marketing.wharton.upenn.edu/forecast/tofc.html

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http://www.number-10.gov.uk/su/toolbox.pdf

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http://greenbook.treasury.gov.uk/

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http://www.opendemocracy.net/debates/article-8-85-1280.jsp

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http://www.strategy.gov.uk/su/survivalguide/eg/Matrix.pdf

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Institute for Fiscal Studies
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International Social Survey Programme
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http://www.number-10.gov.uk/su/loans/report/default.htm

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http://www.mlruk.com/

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Mind Tools
http://www.mindtools.com/

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www.nelh.nhs.uk

National Statistics
http://www.statistics.gov.uk/

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OECD Country Information
http://www.campbellcollaboration.org/

OECD International Futures Programme
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Office of Government Commerce
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Office of Science and Technology
http://www.ost.gov.uk

PAIS
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http://www.policylibrary.com/

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http://www.powersim.com/default.asp

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http://www.pmdutoolbox.gsi.gov.uk/output/Page1.asp

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Public Sector Benchmarking Service
http://www.benchmarking.gov.uk/default1.asp

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http://www.strategy.gov.uk/su/survivalguide/eg/rationale.pdf

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http://www.strategy.gov.uk/su/survivalguide/eg/CommunicationsPlan.pdf

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http://www.whatif.co.uk/

Workforce Development Report
http://www.number10.gov.uk/output/Page3717.asp

Workforce Development Project Evaluation
http://www.strategy.gov.uk/su/survivalguide/eg/WfDevaluation.pdf

World Bank
http://www.worldbank.org/

World Health Organisation
http://www.who.int/en/

World Value Survey
http://wvs.isr.umich.edu/

Strategy Development > Policy & Delivery Design > Output

Template: Final report

1. Foreword

- PM or Sponsor Minister
- Include status of report (agreed government policy, consultation document etc…)

2. Executive Summary

- Key points (the story on one page)
- The problem/issue and why it matters
- Causes/barriers to change
- Solutions - main themes
- Most important conclusions

3. Introduction

- Background to the report
- Scope of study/coverage
- How it was carried out
- Financial implications
- Structure of the report

4. Analysis of the problems/issues

- What is happening and why it matters
- What are the causes/barriers to change
- What are the underlying market or government failures that are creating the problem

5. Where do we want to get to/what is the vision?

- What is the long-term strategy?
- What are the key themes in getting there?

6. How do we get there/solutions

- Analysis of the role of government, the private sector and/or other players
- Analysis of possible interventions/changes
- Recommendations

7. Implementation plan/monitoring and evaluation

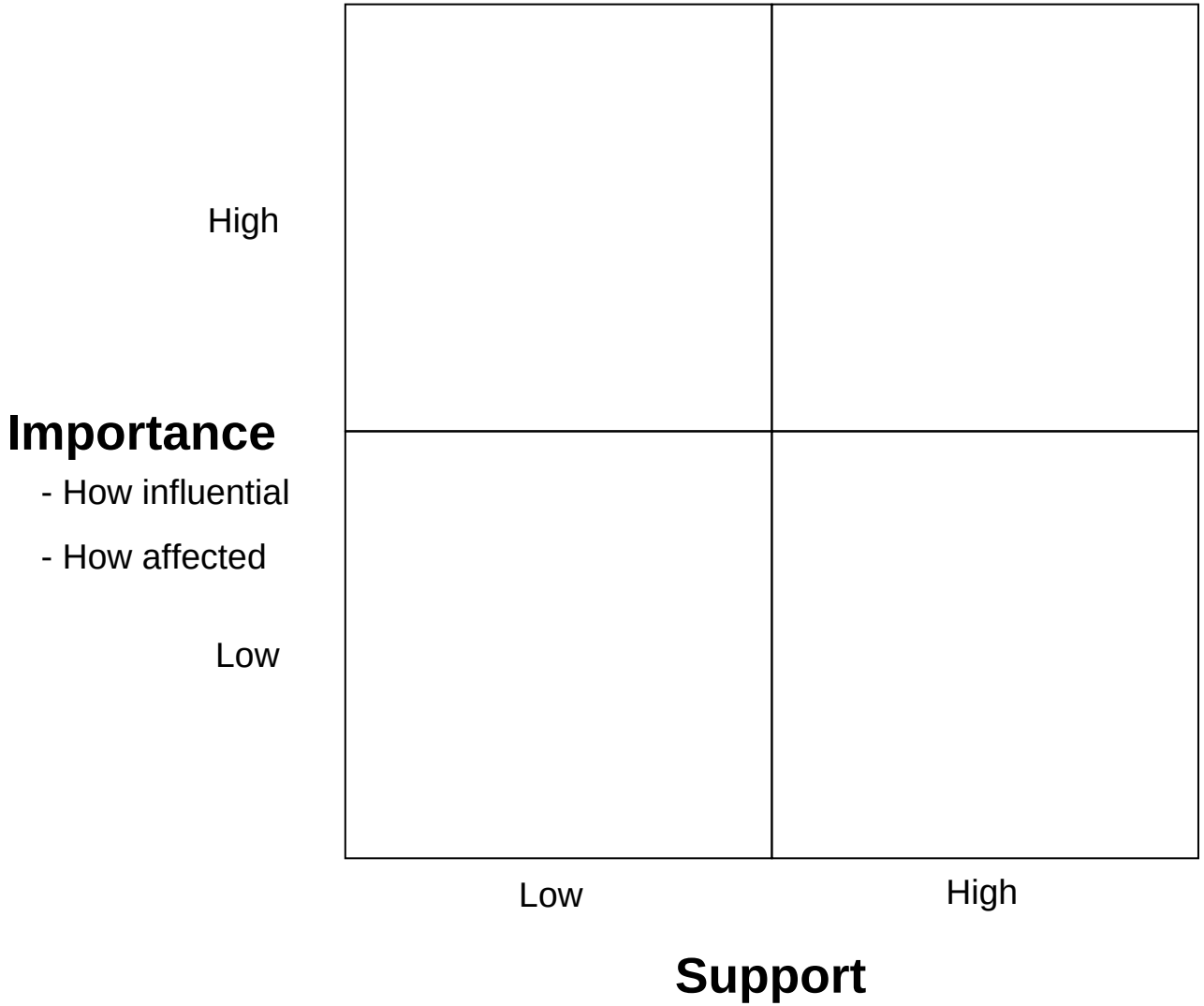
- Responsibilities and timetable
- Implications for devolved administrations
- Monitoring arrangements
- Evaluating impact/key success measures

8. Annexes

- Project team, Sponsor Minister, Advisory Group
- Methodology
- Summary of research and consultation
- Organisations consulted
- References
- International comparisons/lessons from overseas

Strategy Skills > Effectively managing stakeholders

Template: Stakeholder Map



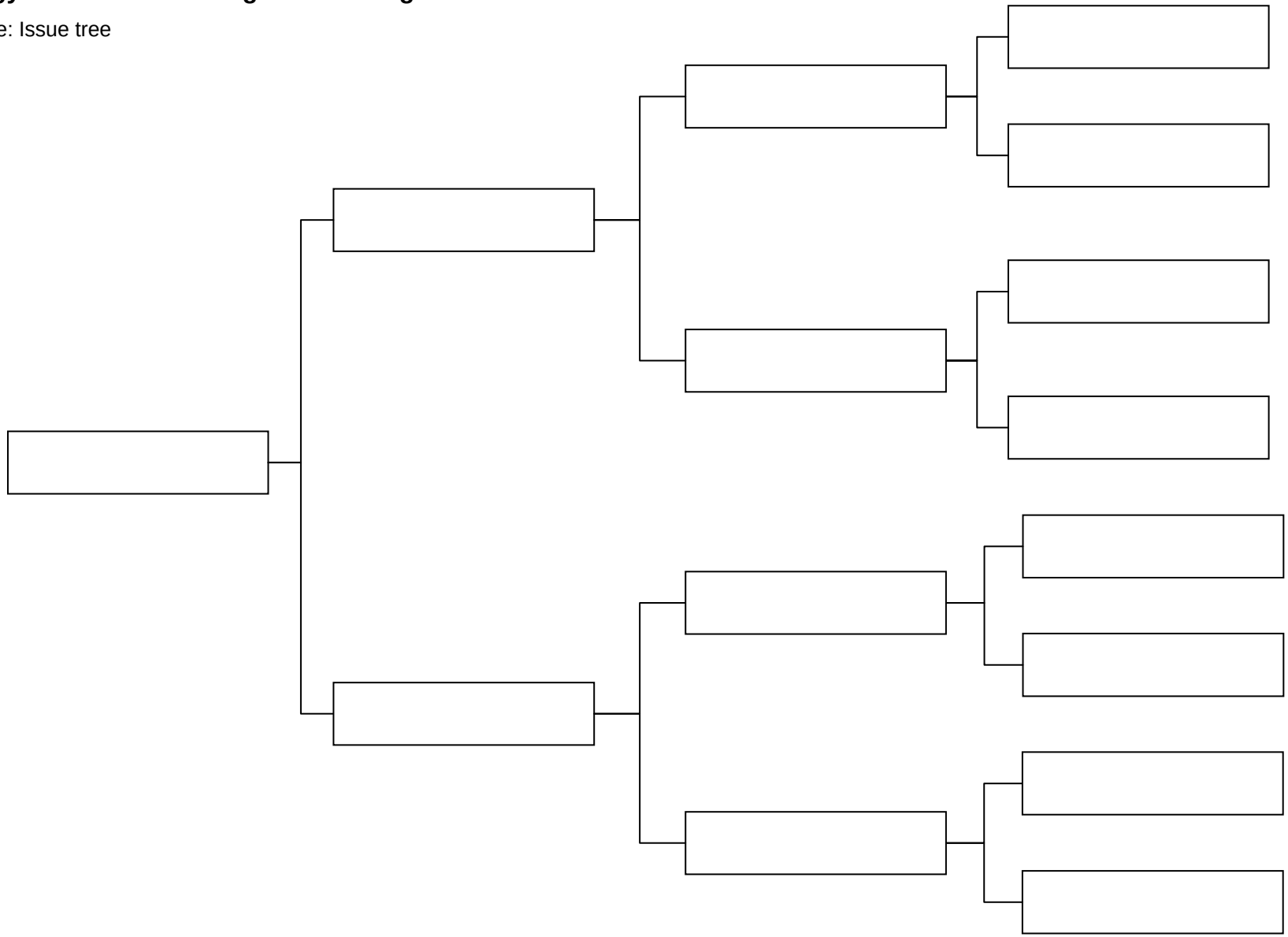
Strategy Skills > Developing a Stakeholder Engagment Plan

Template: Stakeholder Engagement Plan

Stakeholder	Assessment				Action Plan		
	Key issues, concerns, perspective	How Supportive?	How Affected?	How Influential?	How will we engage them?	When will we engage them?	Who is responsible?

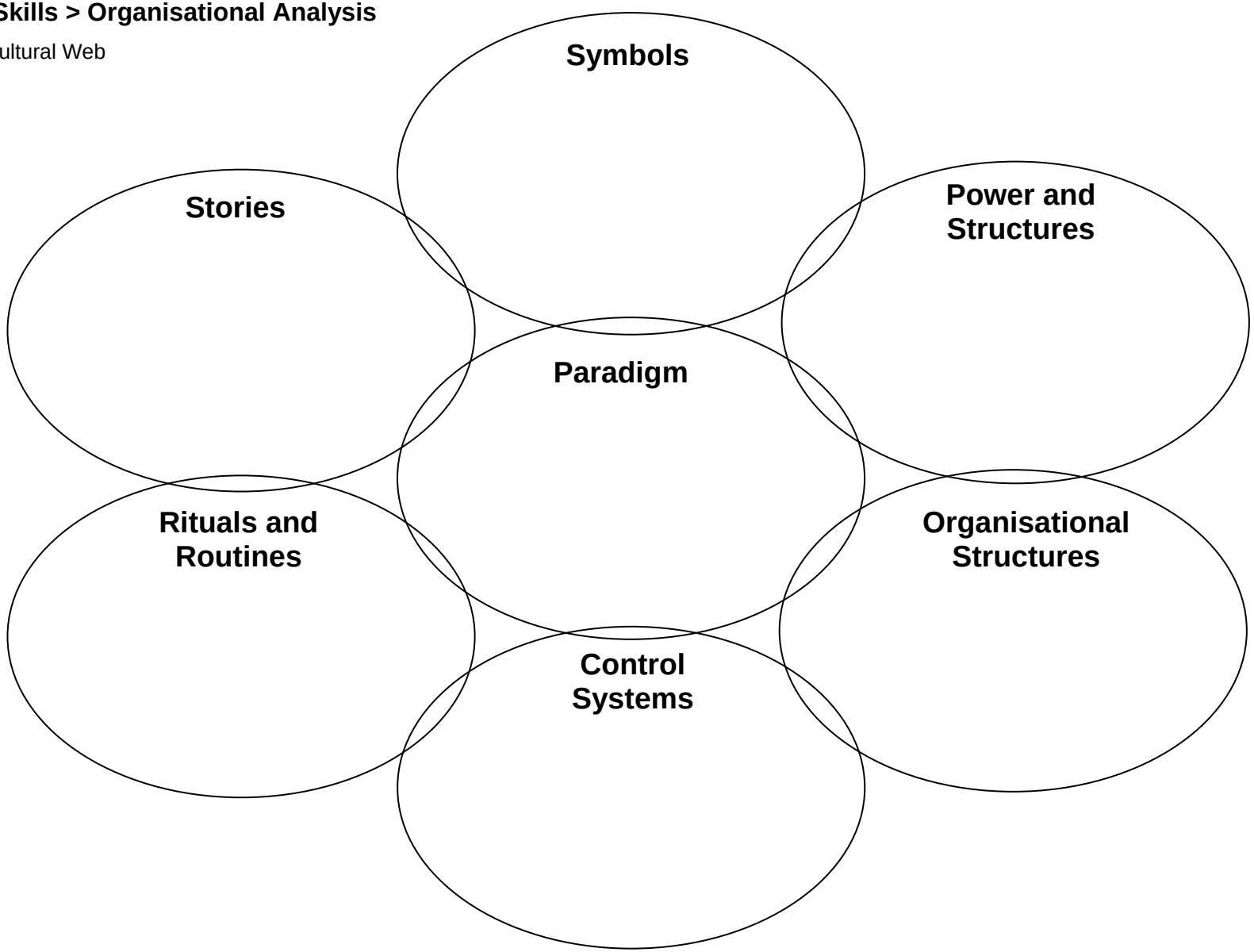
Strategy Skills > Structuring the Thinking – Issue trees

Template: Issue tree



Strategy Skills > Organisational Analysis

Template: Cultural Web



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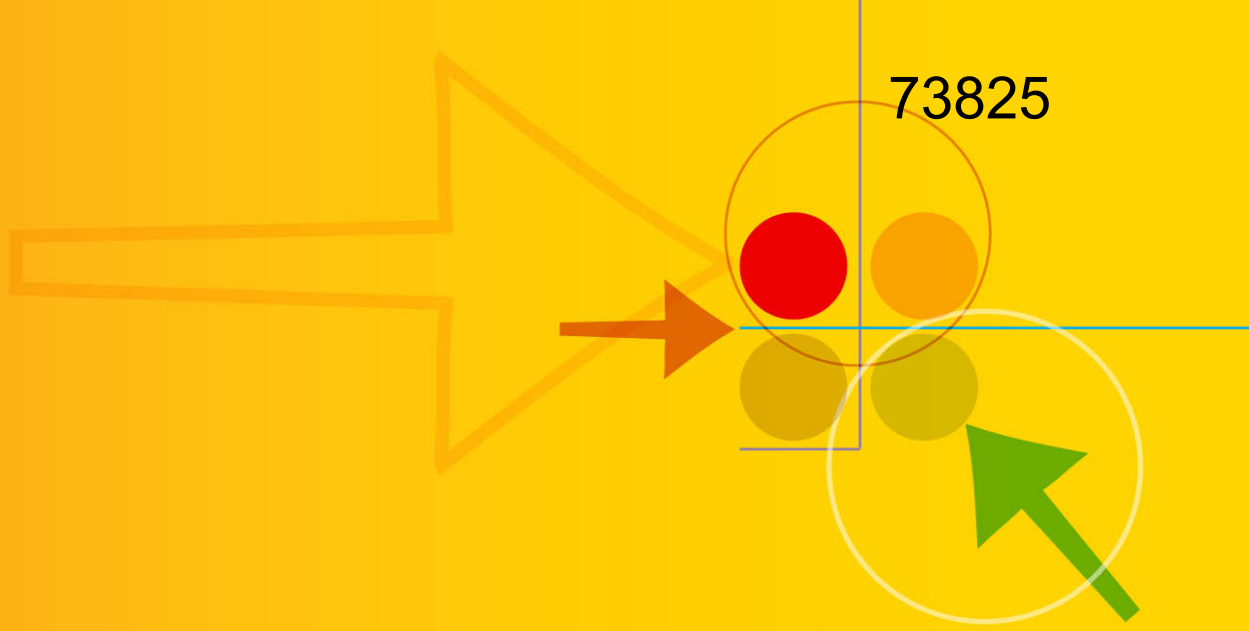

Understanding Policy Change

How to Apply Political Economy Concepts in Practice

Cristina Corduneanu-Huci, Alexander Hamilton, Issel Masses Ferrer

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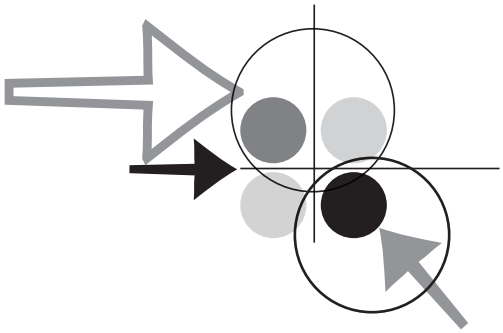

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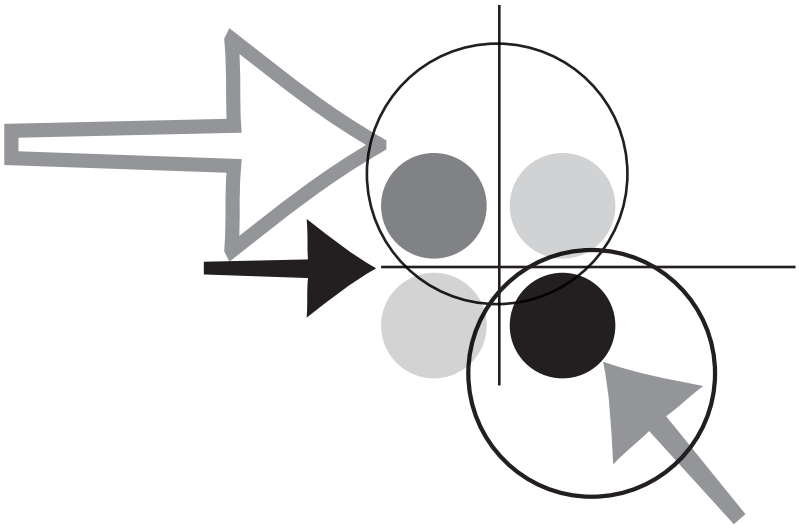

Understanding Policy Change

How to Apply Political Economy Concepts in Practice

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Issel Masses Ferrer

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Washington, D.C.

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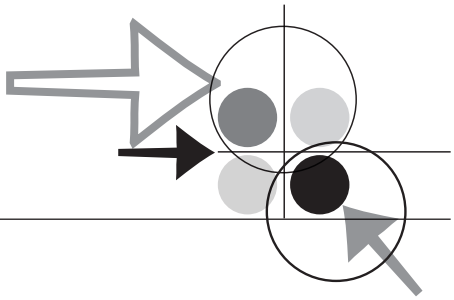

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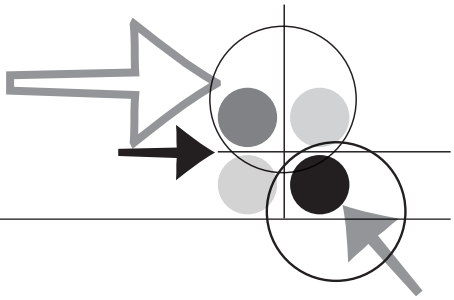

FOREWORD

This book is the outcome of a rather unique conjunction of circumstances that prevailed at the World Bank Institute in Washington, DC, in the years from 2008 to 2012. There and then, a talented group of young staff in the Governance and Leadership Unit, working in the atmosphere of creativity and the supportive authorizing environment provided by the renewal the World Bank Institute was undergoing, began putting their minds together to explore a number of questions few others at the World Bank had addressed.

What are the types of constraints that conspire to derail otherwise sensible policies? When can these constraints prevent a reform process or a project from achieving its declared objectives? How can these constraints to change be unlocked? Under what conditions do individuals and organizations engage in collective action, and when does this lead to the sort of lasting institutional change that is conducive to sustainable development? These were the sorts of questions the team probed tirelessly over three years.

In line with the World Bank Institute's global learning and training mandate, this book was initially conceived as an instructor's guide, with games and exercises, and addressed to those charged with equiping practitioners with the analytical tools and practical exercises to navigate the treacherous and often murky waters of policy reform. Upon closer scrutiny, it dawned upon the team that few books explain these tools to lay readers, and even fewer had ventured to jump the fence and reach out to practitioners. It is to attempt to address these gaps that the idea of this book in its present form first emerged.

Policy making does not occur in a vacuum; rather, it takes place amidst complex political and social environments in which different stakeholders, operating within a changing institutional context, interact strategically as they pursue conflicting agendas. Here, political economy analysis (PEA)

provides a set of powerful tools to diagnose and analyze these factors and evaluate the feasible space for policy change when designing projects for an optimal chance of success. Therefore, by providing a systematic way of incorporating the impact of such factors into a project's benefit–cost analysis, PEA enables a more realistic appraisal of what reformers can hope to achieve in practice.

This volume is intended to provide policy makers, civil society activists, students, and bureaucrats alike with a comprehensive introduction to the core PEA concepts and building blocks, including collective action, institutional analysis, agenda setting, information asymmetries, principal-agent dynamics, credible commitment, leadership, and coalition building. By using real world examples and case studies, as well as a basic game theoretic exposition of key concepts, it builds for readers a step-by-step understanding of how political and social factors may work to shape incentives and facilitate or impede collective action. In addition, several chapters provide a practical guide on how to use the portable tools of PEA in specific policy contexts. This book aims to develop a basis for more successful project identification, feasibility assessment, and realization. We hope it has achieved its objectives.

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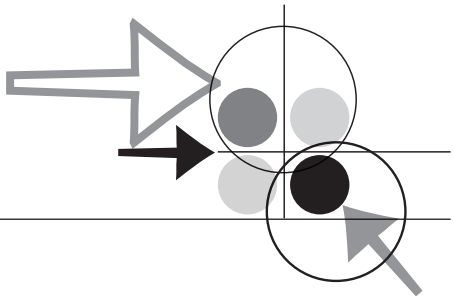
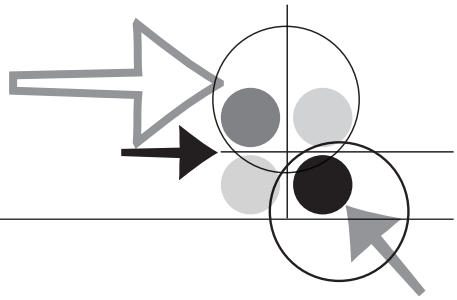


ABBREVIATIONS

ANC	African National Congress
CDF	Constituency Development Fund
DRC	Democratic Republic of Congo
GDP	gross domestic product
LCA	logic of collective action
MP	member of parliament
NGO	nongovernmental organization
NPM	new public management
PEA	political-economic analysis
PAC	public account committee
PD	the prisoner's dilemma
PR	proportional representation
PRI	the Institutional Revolutionary Party of Mexico
RTC	regional transport committee
TC	the tragedy of the commons



Introduction

The introductory chapter sets the stage and outlines the logic of the rest of the handbook. First, we present the main learning objectives; second, we introduce the pedagogical approach, methodology, and structure of the book.

This handbook is intended to introduce the concepts of *political economy* to a wide audience of development practitioners, including civil society activists, journalists, students, and bureaucrats. Since the target readers vary widely in their previous exposure to the subject matter, the book summarizes a vast academic field and presents a comprehensive repertoire of concepts, theories, and empirical examples. Rather than offering a "do-it-yourself" framework, we opted for developing a step-by-step analytical puzzle. First, we introduce the core mechanisms of political economy and their inner logic, and, subsequently, we help our readers learn how to recognize these mechanisms in their daily development-related work. By the end of the book, we hope that readers will be able to:

- Recognize core development problems stemming from the political-economic environment
- Link theoretical concepts to real-life situations
- Diagnose the symptoms and the root causes of malfunctions
- Understand the short-term and long-term consequences of poor governance and low institutional equilibria

- Grasp the intersections of collective action, types of political institutions, the incentives they generate, and development outcomes
- Recommend possible solutions for pro-development collective action and reform.

In addition, readers will explore why political-economy analysis is a valuable tool for assessing the underlying causes of poor governance in a more nuanced way and learn what it actually entails, as well as its many virtues and pitfalls.

This handbook is also designed to provide trainers with some of the pedagogical materials they need to develop an introductory course on political-economy analysis for policy practitioners. The content focuses on the *what*, the *why*, and the *how to* of policy change. The readers or trainees will encounter key theories and concepts and learn how to apply the analysis to an understanding of their own policy-making environment.

Pedagogically, the handbook uses interactive classroom exercises and the case study method to reinforce learning objectives and to capture the concepts, methods, experiences, and challenges relevant for practitioners. Structured learning activities at the end of most chapters and a comprehensive group exercise in appendix D will also give readers and trainers the opportunity to apply the knowledge and tools of political economy to simulated or specific development puzzles.

What Is This Handbook About?

This book explains and illustrates how incentives shape the decisions of policy makers. These decisions determine (intentionally or unintentionally) who gets what, when, and how. Therefore, being able to identify the sources and intensity of such incentives can help explain development policy outcomes. Here are some questions that political economy can help us answer:

- Why do some states promptly initiate and implement relatively healthy economic reforms, while others opt for policies that are blatantly inefficient from the point of view of development?
- What factors explain policy and institutional change and continuity?
- How do institutions shape the content, feasibility, timing, and pace of necessary economic reforms?
- Why is economic development stalled in many contexts?
- How can large shares of non-tax revenue derived from natural resources or foreign aid be harnessed to promote development instead of hampering it?

- Why is tax revenue in many developing countries so low?
- What explains the divergent paths of states at similar stages of development with respect to their ability to reduce poverty?
- What role do collective action and leadership play in development?
- How do incentives at work in different political systems shape government responsiveness to natural calamities such as famines, floods, or earthquakes?
- Why do bad or wasteful policies persist even though it is technically feasible to adopt a better modus operandi?
- Do bad policies endure because of voter ignorance or because of the power of entrenched interest groups?
- What are the opportunities for effective pro-development collective action?
- Will providing a development loan to country *x* facilitate development because policy makers have strong incentives to better the lives of marginalized groups, or will the loan be diverted to the bank accounts of the politically connected?

Identifying how the incentives of politicians and bureaucrats emerge, evolve, and differ across policy-making contexts and time requires an understanding of some basic tools and concepts. These heuristic devices can help practitioners break down a complex environment into manageable analytical components and think with greater nuance about the development issues they encounter in their daily work.

Beyond standard diagnostics, conventional Western-centric primers and textbooks on political economy often fail to capture many context-specific innovations. We attempted to remedy or bypass this problem by incorporating numerous examples of problems and solutions from around the world. Readers or trainees can also contribute to enriching the analytical repertoire of solutions to basic political-economic problems and dilemmas encountered in their specific contexts.

A Guide for Reformers, Journalists, and Civil Society Activists

Despite their inherent limitations and pitfalls, political-economy diagnostics are recognized as useful for answering the *what* and the *why* of development (that is, What are the central development problems? Why do they persist?) and for guiding the *how* to change. In a landscape of challenges and obstacles, a map of all possible routes is the first piece of navigational equipment needed.

Our approach to political economy attempts to be pragmatic and aims to allow enough flexibility for readers to fill in the blanks of the conceptual building blocks with their own development work experience or to use the analytical tools for concrete problems and contexts.

To achieve this goal, we survey many theories and empirical findings in the fields of political science and development economics. In doing so, we hope to avoid the really big questions and big answers as much as we can and yet still capture the logic of quite abstract concepts such as *collective action* and *institutions*. The examples are quite heterogeneous, gathered from a variety of studies dealing with development and reform.

The approach is more didactic than meta-theoretical and seeks to accomplish four things:

- First, we introduce a vast theoretical and empirical literature for readers who have had little or no previous exposure to political economy. Therefore, the text errs on the side of comprehensiveness and provides a "one-stop shop" for relevant concepts and tools. Needless to say, like any survey book, it cannot cover individual components in depth. In an attempt to compensate for this shortcoming, the reference list at the end of each chapter offers in-depth readings on the specific topics covered.
- Second, we present analytical devices that practitioners can use in addressing their own questions related to development issues. These concepts are also accompanied by blank do-it-yourself templates designed to help readers think analytically and systematically about the actors, institutions, and constraints with which they deal.

  Games and class activities at the end of most chapters are meant to illustrate the concepts, to entertain, and to make analytical thinking in general more fun and interactive.
- Third, the case study we use in appendix C gets into the specifics of the "how-to" of reform, once the analysis is done and the problem clear. Most handbooks on political economy address big questions, and their answers focus on the *what* and the *why*. Why does the problem persist? What works? We try to go beyond the *why* and the *what* into the everyday details of the *how* to navigate the tricky terrain of policy change. Readers will be guided through the story of the 2002 public procurement reform in the Philippines.
- Finally, appendix D provides the materials necessary for a group activity designed to give readers or trainees the feel of a real diagnostic produced through team work.

The Main Theoretical Narrative and the Guiding Principle of the Handbook

To what extent do political incentives interact with, undermine, or bolster the economic and administrative targets of policy reforms? The main culprits—corruption, poor governance, and pervasive patron-client networks—hamper and derail development in many parts of the world. Sometimes, these pathologies are simply a "second best," either because they are deeply embedded in complex systems of social relations or because attempts to dismantle them might cause more harm and disruption than correction. In contrast, good governance entails political accountability, the capacity of the government to design and implement development policies demanded by the citizens, and the commitment of key political actors to the rules of the game.[1] The first two chapters will ponder the various manifestations of development failure, or the *what*, in greater detail.

From the *what*, we will then move to the *why* and the *how* of change. Why do development failures persist? Our anchoring stories will suggest a list of potential explanations. Without mechanisms of accountability that align good policies with good politics, bureaucrats and politicians have incentives to satisfy only narrow segments of the electorate, to build patronage machines, and to divert public spending to further their own careers instead of boosting literacy and saving lives. Why do reforms often fail? How can change occur? Is there a repertoire of solutions for diagnosed problems? Last but not least, we address a perennial question, What kinds of incentives can align good policies with good politics? We will isolate theoretical mechanisms and walk through their logic with the help of game theory, a methodological toolkit developed at the intersection of economics and decision sciences.

From diagnostics, the handbook will break down real-world examples into analytical pieces, generalize and abstract from their specific context, and try to guide readers to the bare-bones theoretical mechanisms of causation. This process entails distilling the core political-economic logic from the thick description of numerous details surrounding specific cases (Teune and Przeworski 1970). Accordingly, from concrete examples of electoral rules that give incentives to Honduran or Brazilian politicians to obey party discipline, we will move up a level of abstraction to institutions, or the rules of the game, and explore what they are, what they do to behavior, why they persist, and when they change.

The independent supreme audit institutions and central banks from our vignettes are just outward manifestations of and labels for broader *credible-commitment* mechanisms through which politicians signal to voters that

they mean business and take their mandate seriously. Politics, by definition, implies delegation of mandates. Voters delegate decision making to their political representatives, and these, in turn, delegate policy implementation tasks to bureaucracies. In decentralization reforms, central states give away power and resources to lower-tier governments. We will take this whole process apart, call it a *principal-agent relationship,* and deconstruct it into analytical pieces.

A major obstacle to pro-development change is the large discrepancy in information among voters, politicians, and bureaucracies. This information gap is an intrinsic part of a principal-agent mechanism. Voters are often uninformed about elections, policies, institutions, or the existence of other voters, just like them, who share exactly the same policy concerns. Legislatures are often left in the dark when the annual budget proposal coming from the powerful offices of the executive has only 10 pages or excludes half the actual spending. We will call these discrepancies *information asymmetries*. If they are large enough, they give rise to moral hazard problems: the executive who conceals information has incentives to go against voters' preferences.

Finally, we will look at how acting together and mobilizing effectively for better development outcomes can make change happen. Participating in city budgeting in Porto Allegre, Brazil; increasing electricity access in Uttar Pradesh, India; reforming corrupt public procurement in the Philippines; or building successful irrigation systems at the grass roots in Nepal are all cases of costly efforts to change the rules of the game. We will call this process *collective action* and explore the theoretical obstacles against it and some of the conditions under which it can happen against all odds of success.

Collective Action: The *How To* Change Solution

Collective action is the organizing principle of this narrative and our answer to the *how* question. To paraphrase Nobel Prize winner Elinor Ostrom, collective action is the very heart of development.

Pro-development reforms entail moving from a "bad" to a "good" equilibrium, or changing the rules of the game if they generate suboptimal outcomes. This path is not really controversial, as the importance of institutions has long been recognized. Changing institutions that produce the wrong kind of incentives requires the concerted action and cooperation of dedicated individuals and organizations. In this sense, understanding when and under what conditions collective action occurs—despite seemingly insurmountable challenges—gives us the magic key to the *how* of change.

There are many modes of collective action or ways in which citizens come together to influence public policies:

- *Political parties* aggregate preferences of voters and aim to participate in decision making.
- *Interest groups* represent industries and causes, raise funds, and lobby politicians to obtain favorable policy outcomes for their constituencies.
- *Social movements* amass large numbers of citizens to protest policies perceived as detrimental to their welfare.
- *Reform teams* like the one featured in the Philippines case study build networks of organizations and influential politicians to push institutional change.
- *Collective arrangements* (cooperatives, irrigation systems, and the like) at the grass roots fill the role of a missing or malfunctioning state and deliver public services.

Some of these groups join forces in networks, platforms, and coalitions that increase their power and influence vis-à-vis the opposed vested interests. Many political parties have to participate in coalition governments or form broad electoral coalitions. Citizens and civil society organizations often build platforms for social accountability. Others either work alone or are unable to sustain fragile coalitions within which many divergent policy directions cannot be reconciled.

As the sequence of events in the Philippines case study will show (see appendix C), reform also goes through many stages over its life cycle. Between initiation and consolidation, the main protagonists and the ties among them might even change considerably. More certain is the fact that *consolidation* of policy gains requires higher standards of commitment from stakeholders than *initiation* (Haggard and Kaufman 1995, 9–11). If, under certain conditions, a single organization or individual can spark change, reform consolidation requires coalition building, as well as the cooptation or—more challenging—the re-creation of various societal interests in the process. To reach this point, successful reformers must solve several problems simultaneously: sustaining collective action, mediating distributional conflicts, and building political credibility (Haggard 1990; Waterbury 1989; Haggard and Kaufman 1995; Crisp 2000). Juggling so many challenges is an art that requires rare leadership skills.

When we think of collective action, probably because of the emphasis on *action*, we tend to associate it with change, reform, and institutional shifts. Several chapters will argue that these are only one part of the story. Routine collective action capabilities also ensure that the "good" institutions that align good politics with good policies work as they are supposed to. For

example, in democracies, elections do less to discipline political leaders if voters cannot act collectively and effectively to punish them because of lack of information, skewed electoral laws, malapportionment, gerrymandering, or ethnic fractionalization. Politicians do not have incentives to make credible commitments not to overspend before elections if groups of citizens cannot monitor and collectively sanction such behavior.

Normatively, for pro-development policy, not all forms of successful collective action are benign. In fact, more often than not, necessary reforms are blocked by groups that have the resources and power to coalesce, whereas the interests and preferences of the majority (that is, the poor) remain latent and are never articulated. In public procurement processes, as we will see, influential private sector companies can either lobby government agencies effectively or bribe bureaucrats. As a result, under tight budgets and a poor regulatory environment, the favorable contracts they obtain come at the expense of basic public services. Political and administrative networks of corruption and patronage are also forms of very well solved collective action problems that often block change and severely stall development. They are hard or impossible to dismantle, even when domestic reformers and international donors have considerable organizational capacity and are able to mount concerted action. Needless to say, political parties and social movements are not always benign either. Sometimes, their leaders rally support on radical political platforms, fuel ethnic tensions, or initiate conflicts to divert attention away from their own inability to boost development and alleviate poverty. With these caveats in mind, the handbook will deal primarily with those types or modes of collective action that relate to economic development policies.

Collective Action and Institutions: Coming Full Circle

The rules of the political game generate incentives that often undermine the technical targets of reforms. Unfortunately from a theoretical perspective, the same rules or institutions that lock in the wrong incentives for development policies are also often responsible for obstructing pro-reform collective action, that is, the ability of groups and individuals with shared agendas to work together.

Political institutions are about collective choice and preference aggregation. They add up, combine, and filter the ideal policy goals of voters or stakeholders to produce concrete outcomes. They come into existence to solve collective action problems in the first place. By definition, then, they

arbitrate power relations among different groups in society. However, by solving the motivational and informational problems that undermine cooperation between individuals and groups, they also create the incentives that facilitate certain types of collective action but not others. These might or might not always be favorable for development.

In some autocratic states, the poor are completely eliminated from policy making because they lack all channels of collective action and recourse for their complaints. Political parties and trade unions are banned, and protests suppressed. Martial law often legally forbids "public" gatherings of more than five people. To give an extreme example, in 1979, in Bangui in the Central African Empire, food riots were severely repressed, and the head of state participated directly in the beating deaths of some protesters. Several months later, around 100 schoolchildren protested against a mandate to buy expensive school uniforms from the government, featuring the picture of no other than Jean Badel Bokassa, emperor of the country. Many of the students were tortured, killed, and, allegedly, eaten.[2] During his public trial later that year, Bokassa faced allegations of cannibalism.

In contrast, democracies allow political parties, labor unions, and popular protests against unpopular government policies. However, these rights do not guarantee that the poor can collectively and effectively mobilize and pursue policies that alleviate poverty. None of the political parties might put forward pro-poor platforms, the electoral rules might be unfavorable to the geographical representation of the poor, the parties in government might need to make policy concessions to their coalition partners, or the legislature might not even be politically relevant in the presence of a powerful executive. By the same token, sometimes, in very unfavorable environments, grassroots communities find internal solutions to their collective action problems and organize successful governance arrangements for dealing with scarce resources. Information, monitoring and sanctioning, commitment, leadership, and clear rules of engagement all interact with the overall institution (say, democracy or federalism) to lead to collective action—or not.

Thus, institutions or rules of interaction, on the one hand, arise to solve collective action problems and induce people to cooperate. On the other hand, sustained joint action of citizens and groups can sometimes lead to major pro-development changes in such rules and dismantle forms of cooperation that blocked them in the past from joining forces. This circular relationship between the rules of the game and collective action is also the source of a major theoretical challenge. If institutions structure a certain type of actor interaction and political incentives to pursue development or

not but are also simultaneously responsible for collective action opportunities, the amount of information, the resource endowments of actors, or the technologies of political commitment that politicians have, how can change happen at all? There are no easy answers.

Sometimes, as we will see in chapter 4, institutional change and major equilibrium shifts occur in the total absence of collective action (that is, in the aftermath of major economic or political shocks such as war, natural calamities, or dramatic changes in world prices of goods and services). At other times, internally sparked collective action drives change and overhauls long-established institutions whose stability has been taken for granted. The 1989 post-Communist transitions and the Arab Spring are powerful and inspirational examples of this type of change.

Uppercase *INSTITUTIONS* and lowercase *institutions,* a distinction recently made by Abhijit Banerjee and Esther Duflo (2011, 243), might have different susceptibilities to change through collective action. The former refer to the fundamental rules of society (democracy, federalism, types of checks and balances), whereas the latter are more granular manifestations of institutions (local norms of interaction, specific electoral rules, and so on). Even if the former rarely change except in unusual conditions, the latter are sometimes much easier to dismantle or replace. Development reforms, or positive policy steps, can happen in surprising circumstances. For example, despite the fact that the Saudi Arabian *Majlis* (legislature) lacks both authority over the expenditure side of the annual budget and institutional power, it can veto tax bills. When the government wanted to impose an income tax on foreign workers, the members of parliament (MPs) and the businesses reliant on foreign labor mobilized and successfully blocked the reform.

In some cases, the mere availability of information, or the correction of information asymmetries, has sparked popular collective action and changed overnight the INSTITUTIONS that skewed development outcomes. In Peru, it took only one "bribe-free" television station to show a video of Vladimir Montesinos—the powerful head of the Peruvian secret police and right hand of President Fujimori—bribing an opposition MP to switch to Fujimori's party, to bring people to the streets and take down a very corrupt regime.

For pro-development reform, collective action is often the engine as well as the source of hope. Even if *INSTITUTIONS* and the power relations that underpin them rarely change, if the *institutions* at least can be transformed to align good politics with some good policies, reformers will have achieved their goals.

Chapter 4 will continue the conversation about the relationship between collective action and institutions, the two major theoretical pillars of this handbook.

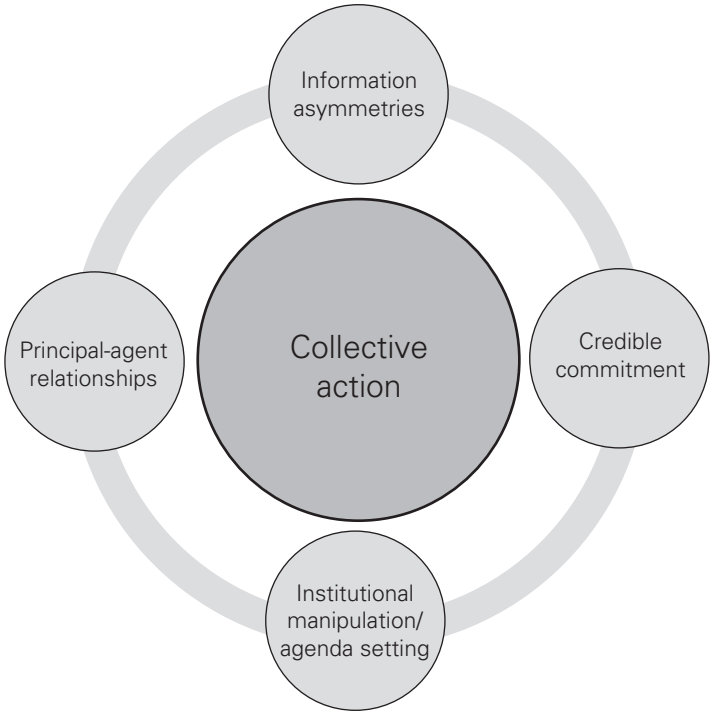
Besides this general debate, individual chapters will go more deeply into the specific constraints of the institutional environment that shape the possibilities, as well as the aspirations, of participants in collective action. Without information, reformers cannot come together (the problem of information asymmetries). When communities cannot monitor their members to prevent lack of cooperation or overconsumption of a public good or when politicians go against the wishes of the voters (principal-agent problems), collective action is not effective. If political leaders lack technologies of commitment through which they can signal to voters and citizens that they will respect their preelectoral promises or if those leaders are weak, uncertainty about the policy environment persists, and underinvestment is the result, unless collective action redresses the problem. On a different scale, leaders of organizations such as political parties and nongovernmental organizations facilitate joint efforts when they manage to signal to their rank and file that they will not break their promises. Often, pro-development collective action is either hampered or facilitated by institutional manipulation or agenda setting. In the Philippines procurement case, for example, the reform team greatly benefited from the actions of an influential agenda-setting MP, who managed to pass an important bill in the legislature on the day when many opposition MPs were absent. Agenda setting, which by definition solves problems of preference aggregation, also raises concerns. In certain circumstances, even if the poor are able to act collectively (through, say, an effective pro-poor party represented in the legislature), institutional manipulation can make their collective action irrelevant and instead push legislation that avoids sensitive development issues altogether. The chapters of the handbook will follow the conceptual map illustrated by figure 0.1, and explore how these four institutional constraints facilitate or inhibit joint efforts for policy change.

Most of the theoretical mechanisms will be illustrated with the help of game theory, a methodological field developed at the intersection of economics and decision sciences that captures best the strategic interaction of actors or stakeholders.

Game Theory and the Dynamics of Political Economy

By its very nature, decision making is usually not just about what policy makers think and want but also about how they expect other stakeholders (or actors) to react to their choices. Because of the inherently strategic nature of policy making, it is useful to include some of the basic tools of game theory to make sense of the strategic environment. Without being overly formal, most chapters of the book conclude with a discussion of how the key tools

FIGURE O.1 Institutional Constraints That Affect Collective Action



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and concepts of political economy work in situations of strategic interaction. Therefore, by illustrating them intuitively, we hope that the reader will identify real-world situations in which a similar logic applies.

In order to understand social and political dynamics in terms of a game, we need to learn to use a few simple tools and concepts that will be further expanded and refined as the chapters progress. Appendix A is an essential starting kit, and readers should get acquainted with its basic concepts in order to follow the games and interactive exercises presented in subsequent chapters. Appendix B introduces the more technical definitions and solution concepts of game theory.

Besides interactive exercises, our case study, detailed in appendix C but referred to throughout the handbook, will give the reader the feel of a real reform that demonstrates the power of collective action for reaching better development outcomes.

Procurement Reforms in the Philippines: A Case Study in the Political Economy of Change

The processes through which government agencies purchase goods and services from the private sector are plagued by severe corruption in many countries. It is estimated that globally some US$400 billion is lost in bribery every year, at the expense of about 20–25 percent of all costs incurred by governments (Ware et al. 2007, 295–96). Because public procurement lies at the interface of politics, bureaucracies, and private companies and involves high financial stakes, attempts to reform the system are daunting, if not often futile. Government contracts (especially for large infrastructure projects) are a lucrative source of commissions, bribes, illegal transactions, and collusion among various stakeholders. Often, these funds supplement the regular income of bureaucrats, are used for political campaigns, and fuel patronage machines. Despite being imperative for better development outcomes, changing the rules of the game through new regulations and better implementation is rarely successful. Powerful vested interests opposing reform are likely to be responsible for a vast cemetery of aborted attempts.

The Philippines case gives us a unique chronological log, or a reform diary, of many events, institutions, incentives, and individuals involved in the attempt to reform procurement. The aim of this convoluted journey was to overhaul a system that lost about US$48 billion to corruption over a 20-year period. The case is particularly fascinating for two reasons. First, it is a mini-laboratory of political-economy analysis, narrating the stories of two reform attempts, one of which was prematurely halted and the other successful. Comparing the configurations of actors, institutions, time sequencing, and pacing of the two episodes clarifies the factors that made or broke these efforts. Second, the case study was codeveloped by one of the reformers, making it a primary source of firsthand information from a participant-observer.

Setting Up the Case Study. The text discusses the analytical components that facilitate or hinder collective action for change. Appendix C summarizes the main events and provides a detailed chronology. We hope that the broad outlines of the story will set the stage for analysis. What institutions were relevant for reformers? Who were the key actors? Did agenda setting push the reform bill through the legislature?

As with all case studies, reality is complex and multidimensional, never quite fitting nicely into our constricted analytical models. The danger of breaking the story piecemeal into components is that our understanding of the final outcome is overdetermined. Simply put, there are too many factors

at too many points in time responsible for the initial failure and later success of the procurement reform. How do we know which one was crucial? Were the politicians' incentives to stop the bill before an upcoming election more important than agenda setting in legislative committees? Did the electoral rule according to which representatives were elected skew incentives more than interest group politics?

To clarify, we are not presenting a theoretical explanation but are rather taking the reader along on a journey through a complex world, with adaptive processes in which every potential analytical mechanism contributed something, no matter how marginally, to the final reform outcomes. In this sense, our take on the case study approaches the "analytical narrative" method used in social science research to combine the factual richness of the case with a rigorous understanding of the analytics underpinning it and the use of game theory (Bates et al. 1998).

The Rest of This Book

The structure of this book is designed so that readers are walked through the different tools and concepts of political economy that can be used to explain policy outcomes. Chapter 2 examines how accountability (and the lack thereof) and general governance issues may help explain variations in the degree of corruption, political clientelism, and waste in policy making. This is the *what* question of development, as it reveals pathologies and symptoms of failure and malfunctions. Chapter 3 introduces readers to collective action problems. As we have argued, the existence of coordination and joint efforts or their absence is absolutely central to understanding and enacting change. The ability of stakeholders to turn their aspirations into actual policy means that collective action problems have to be solved.

Of course, to identify which stakeholders are more likely to be effective in incentivizing policy makers in a specific time or place, we must be able to map the institutional context; that is the objective of chapter 4. Because institutions determine the rules of the game, they are critical to knowing which stakeholders enjoy more or less power than they would in a different institutional setting. Thus, chapters 3 and 4 explore the *why*. Then we move into the *how,* which is the conceptual territory of change.

After the consequences of collective action problems have been identified and how to map the institutional context has been explained, chapter 5 brings the two together by demonstrating how the (institutional) power of agenda setting can enable some stakeholders to exercise disproportionate

policy-making power. This discussion leads naturally into chapter 6, which introduces the principal-agent framework as a useful tool for analyzing how information asymmetries, monitoring, sanctioning, and other delegation dilemmas may work to amplify or check power and hence create the effective incentives that different policy makers face.

Chapter 7 is more generally concerned with exploring the existence of political-economic market imperfections and how these can enable some stakeholders or policy makers to exercise more influence than others. The role of information in the policy process is central.

Chapter 8 then introduces *credible commitment* and how this concept can be used to understand the conditions under which it might be possible for principals (voters, elected officials, and so forth) to incentivize agents (elected officials, bureaucrats) to comply with their agenda rather than engage in blatant corruption or rent extraction. The conceptual section of the book ends with chapter 9, which comes full circle and provides a comprehensive introduction to solutions to collective action problems and how these can be realized more or less effectively in different institutional contexts.

The second major section of the book, chapters 10 and 11, is concerned with providing readers with the practical ability to use these problem-solving tools in their own projects. Through a generic political-economy checklist, the chapters show how stakeholder preferences and power (determined by their potential for collective action) and institutional constraints (agenda-setting power, delegation issues, information discrepancies, and credible commitment) can enable reformers to map the policy-making process.

To help make the material in the book more accessible, each chapter begins with an introductory section that includes a discussion of how and why the analytical concept highlighted in the chapter affects development outcomes. A game theory section at the end of each chapter provides readers with the tools and exercises for rigorous analysis.

Summary

The diagnostics and tools of political economy help focus analyses on the actors, their potential for collective action, the costs and benefits of reform, and the relevant institutions and incentives. They also provide a navigational compass for reformers. Political-economy analysis helps explain why suboptimal development outcomes occur.

Note

1. See Kaufman, Kraay, and Zoido-Lobatón (1999).
2. According to Amnesty International's investigations of this episode, it seems that the public rumors and allegations were more extreme than what actually happened. It is beyond doubt, though, that most of the students died by either beating or suffocation (Borgenicht and Regan 2008).

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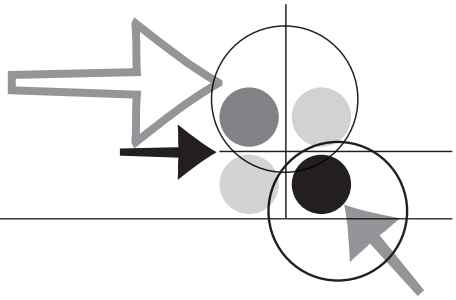


CHAPTER 1

Political Economy: What It Is and What It Is Not

In this chapter, we begin to define *political economy* and look at how it seeks to explain development outcomes by identifying the incentives of the actors and the context in which they make decisions and interact strategically.

Objectives of Chapter 1

By the end of this chapter, readers should have a clear map or guide to the main concepts, mechanisms, and theories related to political economy that will be covered in this handbook. They should be able to do the following:

- Define *political economy* and recognize its products
- Understand the value that political economy can add to the design and implementation of reforms
- Clarify what political-economy analysis entails and what it does not
- Be aware of the main virtues and shortcomings of the approach
- Critically evaluate analytical and practical alternatives.

Political-Economy Analysis, Diagnostics, and Tools

The powerful role that governance and political factors play in a country's development path is increasingly recognized. Policies in sectors as diverse as natural resource management, transportation, procurement, and urban planning, to name just a few, are continuously shaped by the interaction among governments, civil society actors, the private sector, and organized citizens. An analytical approach to governance and the political-economic environment that accounts for these complex interactions is essential to understanding root problems, why they persist, and how they can be changed. Uncovering development traps requires knowing the policy landscape well and identifying the obstacles to reform before navigating it.

Political Economy: The Meeting of Good Politics and Good Policies

Political economy is an established academic field that studies the intersection (or the relationship) between *politics* and *economics*. Its first parent, politics, is in no need of introduction. We all recognize it in our everyday lives. It affects us, we love it, we hate it, and we participate directly or indirectly in its course.

To quote a famous definition, politics is about who gets what, when, and how (Lasswell 1936). Collective decision-making processes generate the answers to these three fundamental questions. The way in which societies select leaders enshrines power relations; the way they deal with conflicts over the allocation of scarce resources determines policies and ultimately outcomes. The nature of political regimes, the electoral laws, the transparency of elections, the access of interest groups to the decision-making arena, the quality of the judiciary, and the degree of political stability determine the laws of the land and their implementation.

The second parent, *economics*, deals with the production, consumption, and allocation of goods and services. Supply, demand, and market equilibria are more or less household concepts. Governments regulate markets and the behavior of economic agents, collect taxes, and reallocate resources.

In relation to specific development issues and reforms, political economy brings the two fields of inquiry together to identify problems and look for solutions. Why are health services or education underprovided to the poor or available in certain regions only? Why are bridges and highway projects started but never finished in many locations? Why does widespread poverty

persist in some areas despite foreign aid, institutional reforms, or entire batteries of policies meant to address it?

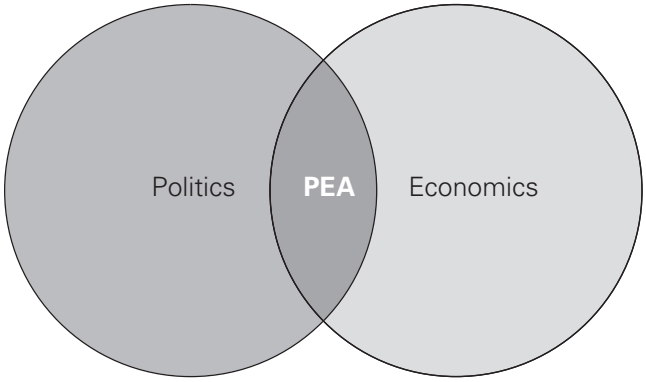
Economics would answer *market failure*. Significant information discrepancies among parties in a transaction, monopoly powers, and negative externalities lead to underinvestment and inefficiencies. Therefore, either markets or governments fail to provide crucial goods and services to the poor. Politics focus less on efficiency and more on the distributional impact of choices. Its answer to the question of high poverty rates would be *collective action problems* or the difficulty of some groups—say, the poor—in joining forces and demanding that governments enact policies favorable to them.

Political economy combines the two approaches and asks bidirectional questions:

- *How do political factors and institutions affect development outcomes?* For example, are democracies providing more public goods than autocracies? Do federal systems lead to higher fiscal deficits than unitary modes of government? Does political clientelism undermine the ability of governments to provide education and health services to the majority of the population? Do certain political parties provide more electricity, water, or better services to the poor? Does the lack of political mobilization of certain groups in society hamper policy change?
- *How do economic factors and institutions related to development affect political outcomes?* Does socioeconomic inequality make transitions from autocracy to democracy more likely? Does democracy survive longer in countries that have already reached a certain level of development? Do regional patterns of economic production and resource endowments lead to the choice of decentralized as opposed to centralized systems of government? What tax and spending policies extend the political tenure of leaders (for example, presidents or prime ministers)?

The tools and diagnostics of political economy comprise a range of thematically diverse streams of research: the politics of regulation, campaign finance, trade policies, municipal service delivery, legislative institutions, budgetary processes, poverty reduction, and decentralization, among many others. Methodologically, political economy uses economic tools to understand development problems and guide reform (Gerber 2003). For readers exposed in any way to economics, some of the chapters of this textbook will sound familiar. Major analytical blocks—principal-agent relationships, information asymmetries, and credible commitment—are the bread and butter of economic analysis. To this mix, political economy adds political parties, bureaucracies, interest groups, and civil society organizations as key actors

FIGURE 1.1 Political Economy: The Intersection of Politics and Economics



Source: Authors.

and policy ingredients and looks at how states and markets interact. All the exercises and interactive activities in this text build on game theory, another family of key tools closely related to economics and decision sciences.

Simply put, political economy is the politics of economics (see figure 1.1). The field is built around a simple but powerful intuition: good policy is not always good politics (Bueno De Mesquita et al. 2003; Guriev 2012). If politicians face a clear trade-off between promoting policies beneficial to society and staying in power, they are likely to choose the latter. This choice, caused by incentives generated by the rules of the political game, often derails development and stalls reforms. We also know that institutions are not all the same: they generate different incentives that lead to degrees of match or mismatch between "good policy" and "good politics." If political leaders are elected, monitored, and kept accountable for their campaign promises, their reelection incentives often align with policies demanded by voters. If, however, the political survival of politicians depends in reality only on a handful of powerful local elites or on vote buying, or if their performance in office is not monitored, they lack incentives to allocate resources to health and education. For them, it pays off politically to keep their small circle of cronies happy through favorable government contracts, subsidies, and tax loopholes and to build patronage machines or invest in a repressive apparatus to deal with public discontent in case it arises. This (mis)alignment between politicians' incentives to pursue good policies and good politics is central to political economy.

What Is—and What Is Not—Political-Economy Analysis?

Some rules of thumb can help explain what political-economy analysis (PEA) is and is not (Gerber 2003, 4). Not all analyses of political economy pertain to the study of the economy per se: many PEA products model political actors as strategic utility maximizers[1] operating in different institutional contexts and use important insights from this assumption. The study of legislatures is an example of political-economy work that has only indirect implications for economic development policy or reform.

At the other end of the spectrum, while some research agendas use the tools, methods, and language of modern economics to study politics, they do not capture the intrinsically political mechanisms at work in their studies of a particular problem. For example, classic public finance scholars simply assumed that the public sector would have an incentive to increase transparency, provide information, and prevent fiscal deficits without considering whether the political incentive structure would be conducive to that objective.

This being said, political economy covers a vast territory of concepts, problems, methods of research, and standards of evidence. Rather than dwelling on meta-theoretical or methodological issues, we focus simply on raising awareness about the conditions under which various configurations of political actors and institutions can skew incentives and, as a result, hinder or advance a reform agenda. To be fair, politics is not always the culprit. Sometimes it corrects the incentives of markets, it regulates, it redistributes, or it internalizes externalities generated by markets.

We operate under the assumption that there is no silver bullet. Otherwise, the world would be a better place by now. That point aside, a critical way of thinking about policy reform is necessary in order to gain at least a glimpse of what is behind organizational mantras, fads in the international community, or whatever constitutes the latest spin, if nothing else. This handbook tries to survey a vast field and to organize information that development practitioners can then transfer to their own specific questions and contexts.

It is also important to note what political-economy analysis is *not* about. Even if the discipline of study and the set of diagnostics and tools it provides contain the word *political,* it is not prescriptive or normative, and it does not intend to provide endorsements or recommendations to readers of any specific political institution or arrangement. Its only aim is to point out core concepts and mechanisms of causation that shed light on the allocation of scarce resources and apply to a wide variety of cultural contexts, organizations, and institutions. In fact, the core logic of political economy has been

used to explain dynamics and outcomes generated by entities as different as family units, religious organizations, business associations, social networks, prison gangs or other forms of organized crime, and state bureaucracies. In this sense, this handbook showcases the analytical tools that can help practitioners and researchers diagnose problems, navigate around obstacles, generate alternative scenarios of action, and come up with feasible and creative solutions.

Moreover, the content discussed throughout this book evolves constantly, and our hope is to encourage readers to develop the analytical thinking that can create less conventional models of problem solving in development. Various cultural contexts and communities around the world generate innovative ways to solve collective problems and take full advantage of technology, preexisting social networks, and windows of opportunity for action. Despite the fact that good policies and good politics are rarely in sync, leadership and local solutions to such misalignments identified throughout the handbook are emerging every day and generate good policies even under conditions of bad politics. In many cases, self-help groups and cooperatives organize around the mistrust of corrupt state institutions. Hometown associations in Nigeria, for example, fulfill the de facto role of a missing (or malfunctioning) local government. Lineages, elders, faith-based communities, women's credit groups, and self-help associations have played a similar role in Tanzania and Uganda. Communities of farmers in Nepal, despite employing less sophisticated irrigation techniques than the ones provided by the government, have managed to grow more crops than ever before because of clear community rules about contributions and sanctions.

Reform Stories: Seeing the World through the Lens of Political Economy

The following examples briefly sketch the stories of several reforms that seem, at a first glance, dry and technical. The problems appear to be clearly identifiable and the solutions seem to reside in either standard economics textbooks or mainstream public administration manuals. Yet, despite this first impression, without accounting for political (or "nontechnical") explanations, we cannot fully understand their course.

Public Procurement Reform

Perhaps very few policy areas are as prone to corruption, bribery, graft, and bad governance as public procurement, a sector that lies at the dangerous

intersection between powerful private and public interests (see Ware et al. 2007; Frøystad, Heggstad, and Fjeldstad 2010). It is estimated that at least US$400 billion annually is lost to corruption in procurement worldwide. Because corruption raises the costs incurred by governments and distorts budget allocations for universal public services (such as education and health), dubious procurement practices lead to inferior development outcomes. Procurement brings together politicians, bureaucrats, and firms that want to win lucrative contracts and that have incentives to collude. Members of the legislature often provide "pork-barrel" spending to their constituency to be reelected. Civil servants, sometimes closely connected to the politician, have enough discretion to award the contract to private companies. The chain of political influence and the large sums of money involved render reforms in this area extremely difficult even in developed countries, not to mention in contexts with weaker regulatory frameworks and rule of law.

The package of technical solutions contains a variety of demand- and supply-side interventions that have worked in some contexts: the use of technology for e-procurement systems, mechanisms of forensic auditing, voluntary disclosure programs, engagement of civil society organizations for better monitoring, and information-sharing platforms, among others. Nevertheless, the technical correctives of incentives are by far overshadowed by the larger political-economic environment in which reform occurs. Even in cases in which some level of technical reform has been achieved, implementation still remains an unresolved issue. Despite the fact that many local companies active in the road construction sector in Uganda, for example, prefer and support a proper tender-based system for contracting, fears of political retaliation or blacklisting in case they challenge the winners still persist (Frøystad, Heggstad, and Fjeldstad 2010, 23). This reality is recurrent in many countries where even the anticipation of weak incentives for implementation and the fear of political retaliation push potential reform supporters to refrain from actively seeking justice and promoting change.

The Setting of Interest Rates

The cost of borrowing (that is, interest rates) affects the willingness of businesses and consumers to spend money: lower interest rates stimulate demand, and higher interest rates increase savings (Fischer 1995). Interest rates that are too low can precipitate too much short-term borrowing and result in a boom that ends when unsustainable debt levels force consumers and businesses to cut back on spending. Therefore, the interest rate has to be set so that the level of spending is not unsustainable. This is a classic example of a technical element in financial policy making.

However, elected politicians are a crucial part of the story. Governments may wish to overspend just before elections to make certain categories of voters feel better off. If government can control the setting of interest rates, the result may be what is usually called "a political business cycle" in which rates are driven by the career concerns of the incumbent policy makers rather than by the fundamentals of economics. An approach based entirely on the standard economic prescriptions would not explain what really happens in most of the world.

This political-economy dynamic has been one of the reasons why after World War II many countries have sought, with varying degrees of success, to make the central banks that set interest rates independent of political pressure. This institutional reform is the product of an explicit recognition that "nontechnical" or political factors can often skew incentives and derail the outcomes predicted by textbook best-practice types of policy.

Civil Service Reforms

Making bureaucracies function well has been at the forefront of development work for quite a long time. The recognition that governance matters and that administrative corruption thwarts development outcomes has led donors and governments to make concerted efforts to improve the quality and the probity of the civil service. In an initial wave of reforms, the problem was approached from a fiscal-administrative angle and focused on employment reduction in the public sector. The subsequent shift to governance concerns brought in a combination of managerial solutions to boosting performance but also the realization that politics is a crucial part of the story. Even if the right financial and professional incentives are in place, even if the salaries of public servants are high enough, and even if there are established rules of meritocratic recruitment on paper, bureaucracies are, more often than not, colonized by the political supporters of the leaders. In the absence of institutions that stand in the way, the incumbent political parties have incentives to politicize bureaucratic agencies (Grzymala-Busse 2007; O'Dwyer 2006; Shefter 1994).

Just as in the previous example, civil service reform is a typical policy domain that was initially thought to have purely fiscal and administrative characteristics, only to end up explicitly incorporating prescriptions aimed at depoliticization. Nevertheless, that realization by itself, without a context-specific understanding of political incentives, has led, in the best-case scenarios, to only marginal improvements. An evaluation of 124 World Bank lending projects designed to address civil service reform between 1980 and

1997 found a poor level of outcomes (Shepherd 2003). Civil service commissions established overnight—or tenure and pension provisions supposed to detach bureaucrats from political influence—could not do much in the absence of robust party competition that could effectively keep in check the incumbent's incentives to staff the bureaucracy with supporters. In some cases, the timing and sequencing of democratization, state building, and party building have shaped the degree of bureaucratic autonomy, as well as the nature of the political coalitions protecting it (Shefter 1994).

Decentralization

Economic theories of fiscal federalism, seconded by a search for pragmatic ways to bring decision making closer to citizens, have generated a worldwide wave of reforms aiming to devolve power and resources to lower tiers of government. Decentralization was expected to correct democratic deficits, improve public service delivery, make local governments more likely to foster a better investment climate for attracting businesses, and reduce incentives for corruption. In many cases, these expectations never materialized or went in the opposite direction. In some contexts, like Argentina and Brazil, the economic performance deteriorated as a result of the reforms. In others, like Nigeria, it exacerbated ethnic tensions (Wibbels 2006).

What went wrong? It turns out that the normative assumptions that underpinned initial models were highly problematic (see Wibbels 2006, 168; Remmer and Wibbels 2000; Rodden 2002; Gelineau and Remmer 2006; Eaton, Kaiser, and Smoke 2010). Often, local governments either were more corrupt than the center or, for political or bureaucratic reasons, were deprived of capacity and resources. On the demand side, the aspirations to correct democratic deficits also often fell short of expectations. Voters lacked information on who should provide services and therefore became more confused and were unable to keep politicians accountable. Businesses and citizens were not as mobile across subnational units as initially thought. The very origins of decentralization often concealed political incentives that distorted development outcomes. The pace and scope of reforms, in many cases, were dependent on electoral calculations of the incumbent political party and on the regional and local power of the opposition. These frictions resulted in lack of coordination among tiers of government, overtaxation of citizens, overspending by local units, and widespread misunderstanding over which level of government was responsible for providing public goods. Overall, these side effects greatly diminished the intended benefits of the reforms.

Reforms of Public Financial Management

Finally, budgets are the true battleground for distributive decisions (see Dorotinsky and Pradhan 2007). In many ways, annual budgets are the official script of the social contract between rulers and citizens. Budget proposals go to legislatures, are debated, are voted on, and decide the amount and structure of revenue to be collected and public expenditure to be allocated in the coming fiscal year. Afterward, they are usually submitted to an audit institution that makes sure that commitments were adequately fulfilled. During the full budget cycle, the draft involves almost every political institution, from the presidency to the line ministries all the way to parliaments and specialized public accounts committees. Therefore, it is widely recognized that reforms entail building the mechanisms of accountability within and outside the government as much as they entail dealing with the technical issues related to resource management.

Corruption and political clientelism (the usual suspects by now) go hand in hand with budget systems that lack capacity, internal controls, external accountability, and transparency. Beyond informal networks of patronage, the formal rules of the political systems create a whole world of incentives that shape the fiscal deficit levels, revenue shares, and expenditure allocations for certain constituencies. Presidential and parliamentary systems assign different powers to the legislature during the budget formulation and approval process. If a powerful executive is unchecked because the parliament receives the budget late for review—and is therefore deprived of key information on tax and spending—or because the legislature lacks the power to amend the budget draft, the accountability of the system is weak. Even the number of pages of budget proposals varies dramatically around the world, from one or two pages to thousands. The percentage of off-budget accounts in total spending also ranges from zero to over 60 percent. In many contexts, these accounts do not go through the legislative process, remaining entirely at the discretion of the executive. Without supreme audit institutions to trace budget implementation and ask for explanations in case of discrepancies, the government can engage in corrupt or clientelistic practices at will.

Even when legislatures have a significant say in the budget process, electoral rules, the strength of political parties, and coalitional requirements create different incentives for members of parliament (MPs). For example, parliamentary regimes seem to lead to a larger government than presidential regimes do, as politicians have incentives to claim higher individual shares from a common-pool resource.[2] Other political institutions such as federalism have been found to interact with fiscal policy outcomes in general, and expenditures in particular, in both developed and developing countries (see

Beramendi 2007; Remmer and Wibbels 2000; Rodden 2002; Wibbels 2005; Haggard and Kaufman 1995; Niskanen 2003). In federal arrangements, for example, subnational units do not bear the costs of tax collection but can overspend in anticipation of bailouts from the center. These incentives create the so-called "tragedy of the commons" discussed at length.

Even the electoral rules of candidate selection affect budgets. In some Latin American countries, for example, regional governors have more weight in the selection of political candidates than party leaders. This arrangement often leads to fragmented party organizations, and to incentives of individual politicians to secure funds for their own geographical districts as opposed to more universalistic expenditure programs (Mainwaring and Shugart 1997, 83).

This list of political incentives at play in public financial management is not exhaustive, but it aims to show that any reform has to take into account first the political-economic dynamics and mechanisms of accountability.

These examples of reforms showcased some of the political or "non-technical" factors that skewed incentives, intersected with the initial policy targets, and changed final outcomes. How can development practitioners identify the specific sets of incentives that are likely to travel this long path of causation to affect their own outcome of interest? What kinds of constraints and opportunities inherent in the political-economic environment are they likely to face when funding or managing concrete development projects as diverse as bridge building, financial management information systems, or public health care policies? Why, despite a continuous stream of financial resources allocated to these projects, are the results lagging? Why do other operational contexts achieve surprising results with much lower budgets?

To help readers think systematically through the list of factors that might help or hamper their own project path, we designed a hypothetical exercise. Let us imagine that the reformer or practitioner sees only the two ends of the policy process: the initial investment and the tangible change in outcomes following the intervention. How can he or she unpack the black box of the policy process in between? We illustrate the task with a specific development puzzle: why do some countries manage to achieve better primary school enrollment and infant mortality indicators despite lower health and education spending? How do we explain the development failure in some contexts and success of others? First, we will introduce the puzzle. Then, we will build an inventory of economic, administrative, and political constraints that could be responsible for outcome divergence. Let's try to organize and analyze the individual pieces.

Deconstructing and Understanding Poverty Reduction Reform: An Empirical Puzzle

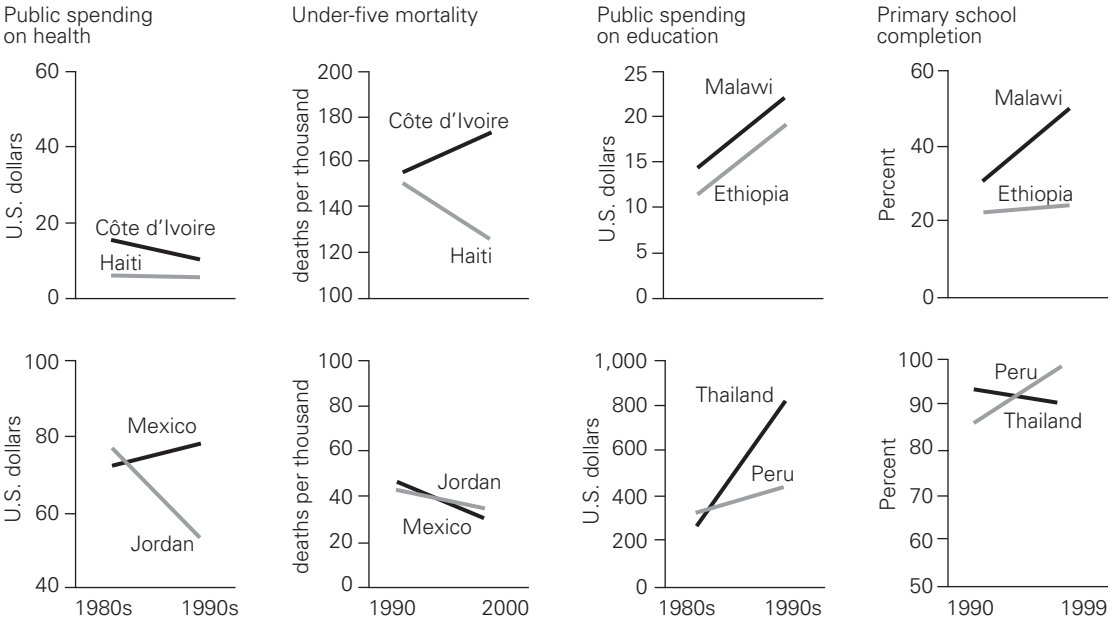
One of the major debates on what really matters for poverty reduction features at least four key positions:

- The first argues that underdevelopment persists because the objective conditions that some countries face are abysmal: difficult weather, unfavorable geographical locations (landlocked or arid areas), exposure to pandemics, and sheer lack of resources. According to this argument, it is hard for people to escape the so-called poverty trap without major upfront investments that lead to higher incomes. Foreign aid, in this version of the story, is crucial. If rich countries committed more funds to poverty reduction, not only could ambitious goals be achieved but also global poverty could be eliminated as early as 2025 (Sachs 2005).
- The second version of the story pays more attention to the institutions, corruption, and bad governance that filter aid funds in the recipient countries and transform them into development outcomes (World Bank 1997).
- The third version is less keen on aid interventions from donors and more focused on building the right incentives for domestic actors to promote growth through their own participation in markets and self-reliance (Easterly 2002).
- Finally, the fourth approach is the most pragmatic (Banerjee and Duflo 2011). Instead of asking big and sweeping questions about the relationship between more spending and outcomes, it concentrates on very specific questions: What kinds of aid programs work well and in what kinds of institutional settings in country *x* or *y*? Why?

Without getting into the theoretical details of this debate, we will now explore how political economy can weave into these stories (see Banerjee and Duflo 2011, 9–11 for a concrete application of the development polemic). Figure 1.2, which appeared in the 2004 *World Development Report Making Services Work for the Poor*, captures variations in implementation gaps between public spending on health and education and the tangible outcomes (reducing infant mortality and achieving a high primary school completion rate). What explains divergent results achieved with similar spending or similar results generated by dramatically different expenditure allocations?

If the problem were more or less technical (that is, lack of development funds as one of the positions in the development debate suggests), then we would expect that increased allocations for health and education would lead to better results for infant mortality and primary school enrollment. This is

FIGURE 1.2 Implementation Gaps—Spending versus Outcomes in Selected Countries, 1980s and 1990s



Source: World Bank 2004, 37.
Note: Spending is measured as total annual public spending for education on each primary-school-age child, in 1995 U.S. dollars, averaged for two decades: the 1980s and the 1990s. For the health graphs, the data show total annual per capita public spending on health, in 1995 U.S. dollars, averaged for two decades: the 1980s and the 1990s.

not the case. What could account for this wide gap between spending on education and health, on the one hand, and outcomes, on the other hand? We know by now that development failure can have many manifestations: severe corruption, rent seeking, political patronage, poor service quality, low capacity, and lack of financial resources. What, then, are the incentives that lead to better outcomes?

Often, this question simply lacks a satisfactory answer. Too many factors filter the amount of spending and decouple it from real results on the ground. For the purpose of this handbook, however, it is still worth thinking systematically about these intermediary steps, because they introduce the core analytical blocks that the chapters later explore in greater depth.

A discussion of the economic, administrative, and political factors or constraints that could, at least in theory, account for this stunning divergence between spending and outcome follows. Readers should feel free to add potential explanations based on their own research and development work experience.

Examples of Economic Constraints

Governments offer *different policy incentive*s to increase demand for education or health care services. Some use direct cash transfers to households to stimulate school enrollment and regular visits to clinics, while others, for an equivalent budget allocation, focus more on the supply side (delegation of service delivery to localities, for example).

The choice to *contract out or to provide services* is another difference. In health care, some governments choose to delegate selected services to nongovernmental organizations (NGOs) or private sector providers. In some cases, studies suggest that similar levels of spending can result in significant differences in the efficiency of service delivery.

Economic crises (debt, currency, financial, and so forth) can trigger sudden country- or region-specific effects on infant mortality and educational enrollment. In the wake of crises, increased unemployment, poor nutrition, low caloric intake, and program cuts in prenatal care have been found to lead to increases in neonatal mortality. A study looking at the effects of the 1997 Asian currency crisis on child health in Indonesia, for example, found a drastic hike in neonatal mortality, despite foreign aid flows meant to supplement declines in spending. In 1998, the food prices skyrocketed by 250 percent. In a country in which food accounted for about 50 percent of household expenditures, and in which public hospitals had scarce supplies at the peak of the crisis, the visits to health clinics declined, and the infant mortality rate increased 3.2 percent in both rural and urban areas (Rukumnuaykit 2003).[3]

Countries also adopt policies at different *development baselines*. Reducing infant mortality or improving the primary school completion rate depends on a complex web of institutions and services, not on budgetary allocations to line ministries alone. Without electricity and clean water to improve sanitation and prevent infant death and without proper infrastructure and transportation to allow children to go to school, positive development outcomes are harder to achieve. It is thus important to take into account the level of development, since it has an obvious impact on the complex ecology of the complementary institutions needed for achieving real infant mortality and literacy targets.

The gap between spending and outcomes also depends on *preexisting social and economic inequalities*. Access to basic services in health and education disproportionately affects the poorest segments of the population. In Cambodia, for example, the poorest fifth have up to three times higher infant mortality rates than the richest fifth (World Bank 2004, 3). High differences between the rich and the poor increase the magnitude of the problem and make targets harder to achieve.

Macroeconomic factors, like currency fluctuation and inflation, have an impact. Under conditions of high inflation, the real budget allocations to health and education can plummet dramatically very quickly and become insignificant. Thus, they never translate into the outcomes planned in the beginning of the budget year.

The *structure of public spending* matters: higher allocations for infrastructure investments or wages and salaries of health and education staff, for example, as opposed to spending on actual services in health or education, might not translate into outcomes at all. Moreover, schools without teachers or health clinics without qualified health care professionals but with a high number of "ghost" workers on the payroll, do not do much for lowering infant mortality and increasing school enrollment. Another spending typology relevant for achieving outcomes breaks down budgets into primary, secondary, and tertiary allocations, depending on the level of health and education services provided. Just as in the case of socioeconomic inequalities, this classification has profound distributive implications. The middle class and the richest quintile of the population are more likely to benefit from university education than the poor. In Nepal, for example, 46 percent of total education spending accrues to the richest fifth, while the poorest quintile receives only 11 percent (World Bank 2004, 3).

Examples of Administrative or Bureaucratic Constraints

Low salaries for public health professionals and schoolteachers might lead to corruption. Having to pay bribes for health care and education services acts as a regressive tax and affects the poor disproportionately. In many post-Communist countries, between 70 and 90 percent of patients were found to have paid bribes to medical personnel. In contexts where the wages are very low for health and education workers, or where they are paid with large delays, these workers have no incentive to show up to work or to enter the profession in the first place.

Bureaucracies often have *low implementation capacity*. In some countries, the qualifications and number of civil servants involved in the health and education sectors are greater than in others, despite similar budget allocations. Following decolonization in Africa, for example, many new states lacked qualified civil servants in general. The Belgian Congo had only 6 college graduates, and Zambia had only 76 university graduates in spite of being one of the relatively modernized societies. In the 1970s, fewer than 7,000 Africans in Sub-Saharan Africa were pursuing college degrees. Paradoxically, this shortage of qualified bureaucrats was remedied fast, but many countries witnessed "dramatic improvements of individual capacity accom-

panied by an equally dramatic decline in institutional capacity" (Van de Walle 2001, 133).

Another example illustrates the challenge of staffing in health and education. In Papua New Guinea in the 1990s, many newly built schools had to close because of the insufficient number of teachers with credentials to fill the positions (World Bank 2004, 22). In contrast, many Eastern European and Central Asian countries have a reasonable ratio of staff to patients or teachers to students. In addition to the low number of teachers and doctors, inadequate qualifications have also been identified as a key determinant of soaring inefficiencies in many countries. A cross-national study conducted in the mid-1990s found that a very low number of cases of diarrhea in children under the age of five had been properly diagnosed or treated (for example, in Zambia 30 percent of all cases were accurately diagnosed and only 19 percent adequately treated) (World Bank 2004, 25). The low quality of health care services induced by lack of trained and properly equipped medical personnel led to poor diagnostics and treatment of patients.

Data on outcomes (infant mortality and primary school completion included) are sometimes not reliable. The *data collection process* itself depends on the quality of the bureaucracy and on political incentives to trace and disclose outcomes accurately. For a number of countries in Eastern Europe and Central Asia, studies that compared data on infant mortality reported by national bureaucracies to international databases with survey data collected in the field have found important discrepancies (Aleshina and Redmond 2003). Similarly, for electricity—a service essential to better health and educational outcomes—satellite-reported data on nighttime energy consumption do not always match the data reported by state agencies in charge of delivering electricity (Min 2010).

Many governments simply lack the *capacity, the tools, and the mechanisms to monitor policy implementation.* An often-quoted study in the development community attempted to trace capitation grants awarded to schools for nonwage primary education expenses in Uganda between 1991 and 1995. The findings were puzzling: only 13 percent reached the beneficiaries. Moreover, richer communities managed to claim these funds, whereas in poor areas, most schools received nothing (Reinikka and Svensson 2004). In many contexts, qualified medical personnel do not want to work in remote rural areas. In some cases, even when they are assigned to clinics in these locations, the lack of monitoring mechanisms and of professional punishment leads to high absenteeism and underprovision of services. A survey in Bangladesh found that the absentee rate among doctors was 74 percent (World Bank 2004, 4).

Lack of bureaucratic coordination between governmental agencies is another issue. The long and twisted path linking budget allocations with actual

outcomes brings together many corners of the bureaucracy: the ministry of finance, different tiers of government (central, local, municipal, and so forth), line ministries (education, health), and the like. In some cases, task duplication creates unnecessary inefficiencies. In other cases, the lack of communication between various agencies blocks important information transfers.

Now, after exploring some of the potential economic and bureaucratic constraints of the development puzzle, we will see what politics adds to the mix.

Examples of Political Constraints

Just like corruption, *clientelism,* the exchange of concrete benefits for a citizen's vote, is often a conspicuous manifestation of malfunctioning development institutions because it concentrates public services in certain constituencies at the expense of universal provision of health and education services that would benefit all citizens. Patronage networks connecting political parties, bureaucrats, governments, and voters often provide disincentives for development reforms because they lock in complex exchanges of access to public services and political support between citizens and politicians.

In 1989, for example, the Mexican government introduced PRONASOL (the National Solidarity Program), a large-scale poverty alleviation campaign providing school construction, water, electricity, and nutrition to the poorest segments of the population. Despite a large budget allocation of approximately 1.2 percent of GDP, the results were quite insignificant (a reported 3 percent rate of poverty reduction compared to an initial target of close to 64 percent). Why this large gap? According to several studies that analyzed spending in states and municipalities, the political affiliation of the beneficiaries was a major factor in program targeting. Communities that supported the PRI (the Institutional Revolutionary Party), the political incumbent, received significantly higher PRONASOL funds per capita than localities that voted for other parties (Diaz-Cayeros, Estévez, and Magaloni 2002; Magaloni 2006).

The system of political representation can create obstacles or opportunities for the access of certain groups to policy making. In autocracies, opposition parties, trade unions, and many other channels of political participation are officially blocked. In democracies, the poor often make up the large majority of the population. At least theoretically, then, their votes should be important to politicians, and policies such as those touching on health and education should closely reflect their preferences. Paradoxically, this electoral power is the exception rather than the rule. Why? Political institutions intermediate both the way in which the poor are represented in the legislature

and the incentives of legislators to enact and implement policies favorable to their constituencies. Therefore, even if the majority of voters prefer policies that would increase literacy rates in the rural areas, this preference might not always translate into actual outcomes. Strong executives and irrelevant legislatures skew the political process toward the policy preferences of the executive. In some circumstances, these might closely match the policy preferred by voters. In others, they could not be further apart.

Keeping other factors constant, *formal electoral rules* governing the democratic process can provide their own incentives for legislators to be accountable or not to voters. The design of electoral districts—that is, gerrymandering—might prevent higher representation of the poor in the parliament. The processes of candidate nominations by political parties and the rules by which they are elected to parliaments shape different patterns of interaction and accountability between voters and politicians. In systems of proportional representation, where citizens vote party lists, for example, the control that the party leaders have over candidate selection determines the type of bond that the candidate wants to cultivate. Closed lists in which party leaders exert most control are less likely than open-list systems (in which voters have a say in the candidate order on the ballot) to build a symbiotic link between individual politicians and voters. District size also matters, because in small districts the competition for a limited number of positions gives incentives to politicians to cultivate personalistic votes. A study of electoral politics in Honduras, for example, shows how clientelism interacts with formal electoral rules to produce outcomes. On the one hand, political *caudillos,* all the way from the president to local politicians, are expected to award personal favors, jobs, and tangible benefits to supporters and not to make or implement nationwide pro-development policy. On the other hand, a closed-list proportional representation rule gives no incentives to politicians to cater to local constituencies but, instead, to acquiesce to the party leaders. As a result, the majority of MPs never initiate any bills in the legislature. The ones who do, however, are more concerned with locally targeted bills that would keep their rural constituencies satisfied, rather than national legislation that would improve education and health (Taylor-Robinson 2006, 2010).

Delegation of authority can also generate political incentives and affect development. The gap between policies and outcomes is sometimes related to the capacity of the particular tier of government responsible for implementation. For instance, many countries have decentralized education and health policies. Strong political incentives to decentralize or not in the first place are often responsible for the lack of coordination and capacity mismatches between different tiers of governments. In other cases, decentral-

ization occurs on paper at the insistence of donors, without the actual resources that would enable local governments to execute policies.

The *timing of elections* and the assessment of the probability of winning or losing them create strong incentives for politicians to deliver visible results or push reforms consequential for health and education outcomes. Reforms such as decentralization that affect the gap between expenditures and outcomes are sometimes initiated and implemented when the incumbent party estimates that it will lose national elections, in an attempt to preserve at least some power in the regions.

An approaching election makes political representatives want to avoid sensitive or difficult-to-solve development issues. After all, difficult reforms are commonly initiated in the "honeymoon" period or at the beginning of the term in office because the potential political unpopularity would have enough time to dissipate by the time of the next election.

In other cases, election time also provides good opportunities for credit taking. The Constituency Development Fund (CDF) in Kenya, for example, allocates US$1 million to each member of the Parliament for projects in his or her own district. In the absence of a formal accountability mechanism, suspicions of corruption often plague the management of these funds. In 2007, a civil society organization wanted to conduct social audits of these funds and involved community members, but the data on CDF allocations were very hard to obtain. The group approached the representative of the Changamwe district and persuaded him that if he disclosed the accounts, he would be the first MP ever to cooperate with civil society on information release. Understanding that cooperation would boost his public image in an election year, he agreed to share detailed data on 14 projects sponsored by his own district CDF. The strategy paid off for both civil society and the politician. The former discovered and corrected many irregularities at the implementation stage, whereas the MP was reelected in a year in which most sitting MPs lost elections. The representative acknowledged that opening CDF accounts played a big role in his electoral success.[4]

We have already alluded to the resilience of clientelistic politics in many countries around the world. One of the most common reasons for it is the politicians' *lack of credibility in delivering universalistic policies*, such as reducing infant mortality rates or increasing school enrollment. Often, voters do not trust political party platforms since they have not seen genuine results in the past. Therefore, they would rather accept concrete material benefits in exchange for their turnout and vote. To quote an eloquent evaluation of this type of voters' cynicism: "Honduran voters do not understand that a deputy's job is to legislate, and they do not value legislation because you cannot eat a law" (Taylor-Robinson 2006, 111).

In addition to this type of commitment, at the policy implementation stage politicians often lack incentives to build *credible mechanisms* that would guarantee that budget allocations translate into genuine outcomes. Positions in public bureaucracies can be used to reward supporters, and uncontrolled or unaudited budgets can provide campaign funds for the incumbent party. Depoliticizing the ministry of education or creating a politically independent supreme audit institution that would audit health expenditures is a typical example of "good policies" that are not "good politics."

Lack of information about policies and outcomes can also limit the extent to which citizens can award or sanction political behavior. Unless citizens and voters are informed about the gap between planned and achieved outcomes or, more generally, about government's performance in providing effective health and education services, they cannot sanction politicians at the ballot box. Media and civil society organizations play a key role in translating the process of policy making and implementation for citizens and in raising awareness about the noncompliance of politicians or bureaucrats with their mandate.

The government of Uganda, for example, launched a universal primary education program with the goal of increasing enrollments and literacy rates. In 10 years, this ambitious effort gave tangible results: it increased primary school enrollment from 2.9 to 6.3 million children. The success itself generated its own challenges, however: a severe shortage of school buildings and classrooms. A school facilities' grant incorporated in the national budget disbursed US$600,000 per district to build new school buildings. The community officials' lack of managerial experience coupled with incentives for graft made monitoring imperative. In 2002, a civil society organization mobilized citizens to obtain information on expenditures from local politicians and bureaucrats and match it with the actual construction sites. Finding large mismatches between spending and the existence or quality of school buildings, the citizens petitioned the Office of the Prime Minister and the Ministry of Education and Sports. As a result, problematic subcontractors were fired. Moreover, the community started to post financial information on community boards, reducing teachers' absenteeism and the corruption incentives of local officials.[5]

The process through which development priorities are selected significantly affects development outcomes. Often, the geographical maps designed to allow technical targeting of resources to the areas that are most in need do not overlap with the political maps of development. For many political representatives, rewarding key constituencies pays off more than objectively allocating aid to the poor. Visibility of outcome matters for politicians, since they

can take credit for good policy implementation. Lack of visibility also matters: if political representatives or bureaucrats can slip poor performance under the rug or pass the blame to somebody else, they have incentives to do so to avoid electoral defeat. Occasionally, the search for results that voters can easily identify and attribute to the officials or representatives leads to unexpected results. In some cases, national governments invest in and monitor the implementation of innovative education or health policies, mostly in areas with the capacity already in place to implement them, since they are more likely than localities or regions with more questionable capacity to achieve tangible and visible results quickly. In such cases, policy visibility comes at the expense of growing inequalities. Regions that already have resources and capacity are empowered, while areas that lack them in the first place suffer from neglect. In two countries that spend the same share or amount on education and health, such selection effects can nonetheless lead to discrepant outcomes.

Variations in the *capacity of groups to mobilize* will fundamentally shape the result of their efforts to demand services. Low-income groups often lack the resources and organizational capacity to campaign effectively. Furthermore, the lack of information, skewed electoral rules, the ways in which electoral districts are drawn, and the existence and power of pro-poor political parties can all constitute severe obstacles or opportunities for the poor to mobilize and demand bureaucratic or political accountability.

In some cases, the poor are well mobilized and regimented by patronage networks, have a large vote turnout, but fail to select and hold accountable politicians who would credibly commit to provide and implement health and education. The appeal of tangible clientelistic benefits handed out in front of the ballot box is simply higher in some contexts than the noncredible electoral promises of other parties. On the other side of the spectrum, in many cases the capacity for mobilization and collective action has led to significant improvements in policy implementation. The by-now famous case of participatory budgeting in the Brazilian town of Porto Alegre initiated in 1989 by a left-wing mayor committed to large-scale community mobilization and citizens' involvement in city finances led to tangible outcomes: over a 15-year period, the access to water and sewage reached almost 100 percent, and the number of schools quadrupled. In the Indian state of Uttar Pradesh, a low-caste political party managed to increase the electricity coverage of villages (Min 2010).

Despite such inspiring stories, more often than not, the poor fail to mobilize as effectively as other interest groups. This failure skews resource allocation in favor of the most politically vocal and influential. The health sector

provides an example. If the public procurement process for medications is plagued by corruption, then a large share of public spending on health goes toward purchasing overpriced drugs from powerful private sector companies rather than toward basic services that would, for example, significantly lower infant mortality rates among the poor. In the late 1990s, Albania spent a large share of its health care budget on the problematic procurement of drugs through direct purchase and leakage of confidential information to pharmaceutical companies, as opposed to competitive bidding and a transparent process (Cohen, Mrazek, and Hawkins 2007, 32).

Mechanisms of accountability are key to providing politicians with incentives for implementing good policies. Some cross-national studies have found that poor democracies have higher primary school enrollment than authoritarian equivalents, since electoral pressures make politicians more responsive and accountable to the educational needs of voters (Brown 1999). In the same vein of argument, a study of education spending in Brazil found that the periods of democratic rule, as opposed to autocratic episodes, significantly affected the allocation of primary education funds between state and local governments, as well as the share of primary versus tertiary education spending (Brown 2002). But democracy and elections might not be the only institutions that can generate incentives for public service delivery. As other findings indicate, autocratic forms of government with alternative mechanisms of accountability might outperform democracies in delivering selected basic health and education outcomes. Cuba has better health and literacy indicators than many countries with much higher income, and China has reduced infant mortality to a great extent and achieved almost universal primary school enrollment (World Bank 2004).

An *effective and independent judiciary* can protect citizens against political attempts to promote policies that may hinder their basic rights. Even in the absence of a responsive government, a robust system of checks and balances and separation of powers creates paths other than the ballot box through which citizens can influence outcomes and hold the executive accountable. Especially in the case of health and education policies, many national constitutions inscribe basic services as human rights that states should provide to all citizens. If the courts are free of political interference from the government or the legislature and if citizens have the informational and financial capacity and the ability to mobilize and access the judicial system, then tangible outcomes are more likely to be achieved. The Treatment Action Campaign Case, for example, brought in front of the South African Constitutional Court in 2002 by a civil society organization, claimed that an antiretroviral medication crucial to the prevention of HIV

transmission from mother to child at birth should become available in public hospitals. Despite the government's resistance to the dissemination of the drug on financial grounds, the court ultimately awarded the case to the claimants. The case is now considered a major milestone on the long and winding path of HIV/AIDS policy reform in South Africa (Gauri and Brinks 2008).

Last, but certainly not least, *conflict and political instability*—such as wars, civil unrest, or other fragile situations—can significantly affect development outcomes. Several cross-national studies have found that fragile states have, on average, 10 percent higher infant mortality rates than comparable countries, irrespective of the line ministry spending (Gates et al. 2010). By the same token, according to estimates, 38 million out of approximately 230 million children in countries affected by conflict do not attend primary schooling. In fact, 30 percent of all the children in the world who do not complete primary education live in fragile states (Gates et al. 2010, 19).

Economic, Administrative, and Political Factors: Blurry Areas of Conceptual Overlap

The factors behind development failure and success just discussed are by no means a complete list. Moreover, only problem- and context-specific empirical testing can confirm whether each of these constraints is relevant. The list is hypothetical. It is rather supposed to start a conversation about a broader range of potential causes of development failure, beyond a narrow "technical" (or nonpolitical) core of explanations and solutions.

A good understanding of political economy helps us sort through these constraints and incentives responsible for such a divergence in final outcomes. Sometimes the intersection of distinct political and economic causes is the best explanation. Other times, what may appear to be a purely economic or political factor might hide incentives characteristic of the other two categories. Here are some examples:

- *Economic inefficiencies* in the implementing agency might stem from several causes: lack of basic capacity, lack of adequate coordination among bureaucratic units, and problematic public procurement practices for private contractors, among others. These constraints pertain to the bureaucratic and political domain as well, as they skew incentives across all levels.
- To an equal extent, *seemingly political factors* that decouple health or education outcomes from the spending levels (such as lack of political will to

implement policies effectively, weak rule of law, weak voice and accountability, and the like) are often problems closely associated with or exacerbated by resource scarcity, the degree of development, a low level of urbanization and modernization, or sheer poverty.

- *Bureaucracies malfunction* for many reasons. On the one hand, malfunctions might be the product of insufficient economic development or the lack of basic state capacity to establish a critical mass of competent bureaucrats. On the other hand, in the absence of mechanisms that prevent politicization, bureaucracies are often at the mercy of the political incumbent. The winning party can staff the state with party supporters and use regulatory agencies to retaliate or persecute opponents.
- Even *data on budgets and outcomes*—which we usually take for granted—are not "politics" free. Sometimes key budgetary indicators are not released at all or are distorted precisely because politicians try to prevent being sanctioned electorally if such data reveal underperformance.

The rest of this handbook will deal mainly with the third category, political constraints, and explore how they derail or promote development outcomes and reform attempts.

The Limits, Perils, and Promises of Political-Economy Analysis

Before we move forward, we present some of the main arguments for and against political economy that the development community has raised.

The arguments in favor of this approach claim that it provides the analytical tools, methods, and diagnostics that allow us to understand and map the policy context. Without explicitly incorporating political institutions, actors, and their interaction into our analyses of the policy-making environment, we leave out at least half the story and fail to properly account for context specificity. The arguments opposed to it say that political economy focuses on large-scale institutions and processes that rarely change but neglects or ignores the marginal improvements feasible even in bleak environments. In addition, political economy is less practical in addressing how reform should proceed and is often overly pessimistic, given that the constraints in many developing countries are severe and the feasibility of policy change is low. According to its critics, political economy is also not sensitive enough to context because of its rational choice underpinnings that oversimplify incentives, payoffs, and the nature of information flows between actors.

In the following section, we briefly introduce some arguments and alternatives that aim to respond to these issues. Then we will clarify how this handbook plans to address (or bypass) at least some of the criticisms.

Insurmountable Problems, Policy Resignation

One of the critiques of applying the approach of political economy to development comes from its fatalistic flavor. The analytical focus generally falls on *institutions*, the *incentives* they generate, and the effects these incentives have on *development outcomes*. The implication is that if a reformer wants to shift the development equilibrium and reverse the path—which means changing outcomes, which means changing incentives, and which means altering or creating institutions—the set of potential solutions is usually overly challenging to tackle. Voter-politician accountability relations, decentralized government, or anticorruption agencies cannot be transformed overnight to suddenly become functional without the necessary buy-in from key actors.

Especially if the fundamental institutions (that is, democracy, federalism, and the like) are a reflection of underlying conditions and power configurations in the society, institutional change requires a fundamental overhaul of social relations and background conditions and might not be feasible or even desirable. This view is often quite cynical with respect to the idea of "true" institutional change often showcased by international donors. Provocatively, one observer argued that even the editorial template chosen for the presentation of reform outcomes in the policy reports of international organizations often signals the uniqueness of such success stories. In-text boxes usually highlight the rarity of institutionally induced change, possible only when the underlying conditions are ripe for success. Otherwise, if institutions were the true drivers of results on the ground, irrespective of deeper structural factors, the readers would expect to see tables or graphs that would record empirical patterns more systematically (Przeworski 2004, 530).

In practice, this is the "go home and cry" scenario. If, say, we know that democratic accountability through elections gives the "right" incentives to politicians to perform and that as a result, it leads to the prevention of large-scale famines, we might understand the problem analytically while being further than ever from a feasible solution. Promoting clean elections and developing accountability in a poor country over a short period of time in order to apply an institutional solution to food crises are as challenging as reducing inequality or promoting economic growth overnight. We argue, however, that practitioners and reformers should be aware of the limits and perils of

change, even if in the end of their analysis they discover that there is nothing to be done. Otherwise, they run the risk of institutional engineering with limited or missing domestic ownership and possibly detrimental consequences for development.

"The Quiet Revolution of Small Successes" versus "Big Questions and Big Answers"

In a recent influential book in development economics, the authors Abhijit Banerjee and Esther Duflo make a useful theoretical distinction between uppercase *INSTITUTIONS* and lowercase *institutions*. Whereas the former are the broad fundamental rules in a society (democracy, federal arrangements, or parliamentary or presidential regimes), the latter include more granular and localized forms of interaction between actors. A second related critique argues that political economy is overly focused on political INSTITUTIONS: democracy and autocracy, federal versus unitary systems, or any other broad set of core rules that keep the machinery running (Banerjee and Duflo 2011, 238–42). Reform in this view, again, is hard or impossible because the approach is simply too ambitious and too pessimistic. While key rules might explain why things do not work well, they are often hard or impossible to change precisely because they lie at the core of the beast. An alternative approach has furthered our understand-ing of how development works on the ground and has infused some optimism in the debate between academia and practice. Its proponents adopt instead a more pragmatic plan of action, leaving aside the big questions such as why democracies foster growth and development and focusing instead on manageable marginal successes based on the concrete institutional arrangements on the ground rather than on the big INSTITUTIONS themselves.

Here are examples of questions that this approach answers: Are the specifics of democratic institutions—characteristics of elections, checks and balances, patterns of popular participation, the nature of the legislative process—in country *x* conducive to less corruption, better public procurement systems, more budget transparency? How are various leadership structures and forms of authority affecting the production of public goods and collective action at the village level? Why are there fewer malaria cases in region *x* than in region *y*, despite similar environmental conditions? From this perspective, the view from below, based on the realities on the ground and not on meta-theoretical questions, is more likely to be better equipped to inform policy choices. Even changes in small rules can adjust incentives and ultimately lead to better outcomes.

This approach is complementary to our view of political economy in practice as it restores hope in the feasibility of change. We argue for empirically grounded analysis built around a concrete problem that uses a variety of methodological tools and conceptual building blocks. However, big questions and big answers related to INSTITUTIONS often bring theoretical and empirical insights that inductive, narrow, or localized findings do not always provide. A mixture of both forms of inquiry into why development problems persist can paint a complete feasibility map for policy navigation. It can also build an active repository of cumulative analytical findings and policy solutions to overcome external validity issues stemming from exclusive reliance on context-specific findings.

Actionable Political Economy Analysis as Opposed to Static Research Outputs

Another prevalent criticism of the political-economy approach persistent in the development community comes from the "so what?" problem. Once we have conducted an analysis and understand the policy dynamics taking place, what do we do next? Most studies or reports are valuable in drawing the landscape and the obstacles surrounding reform but are less useful in guiding us through that landscape. One of the responses to this shortcoming is the "actionable" component (Pradhan 2010). Accordingly, political economy has to go beyond analysis and directly fuel a process of knowledge-driven change by translating analysis into actual reform. The type of dynamic knowledge that has local legitimacy and ownership would not only identify the actual actors and their obstacles but also actively catalyze and nurture their collective capacity for action.

This view aspires to organically connect the knowledge production process with action. Successful and sustainable operationalization, therefore, requires a paradigm shift along three dimensions: analysis *for whom, by whom,* and *how?* The answers require the redefinition of roles, as follows: (1) *the client*—the final beneficiary of the analysis—should be the change agent on the ground and not the donor agencies; (2) *the producer*—the local teams—should undertake political-economy analysis to develop understanding and trigger ownership of reform; and (3) *the process*—instead of generating a passive research output—should result in analyses commissioned and produced locally for the change agents and organically integrated into the process that they are about to initiate. As a one-stop source of basic information, interactive activities, and case studies, this handbook is designed to encourage and serve this precise purpose.

Incorporation of Political-Economy Analysis in Donor Operations

Last but not least, the World Bank, the United Nations Development Programme, and the U.K. Department for International Development, as well as many other development agencies and think tanks, have generated a plethora of studies, frameworks, guidelines, and manuals to help their staff better understand the operational environments and think in a more nuanced way about policies. Pockets of reluctance still persist, however, because factoring in the political process occasionally seems to be at odds with the technocratic mandate of these organizations. Nonetheless, we argue that mainstream recognition of the fact that politics matters is long overdue. Donor organizations have always been an integral part of the political-economic environment, given their own incentives and interactions with local actors. A deep understanding of the underlying politics of reform, as well as one's own role in it, is crucial for successful policy design and implementation.

Summary

As the opening vignettes suggested, the rules of the political game generate incentives that often undermine the technical targets of reforms. Despite all their limitations, political-economy diagnostics are recognized as useful for answering the *what* and the *why* of development and for guiding the *how* to change. In a landscape of nontechnical challenges and obstacles, a map of all possible routes is the first piece of navigational equipment needed.

Notes

1. *Rational utility maximization* is a key assumption of economics; simply put, it means that, when making a decision, the individual (as a consumer, voter, or the like) settles for the greatest "value" possible derived from the choice, for the lowest cost (or investment).
2. According to some studies, public spending is, on average, 10 percent of gross domestic product (GDP) lower in presidential than in parliamentary regimes (Persson and Tabellini 2003).
3. See http://pdf.usaid.gov/pdf_docs/PNACT315.pdf.
4. International Budget Partnership (IBP), "Social Audits in Kenya: Budget Transparency and Accountability," http://internationalbudget.org/wp-content/uploads/Impact-Story-Kenya-English.pdf.
5. IBP, "School Building Fund Provides Lessons on Community Mobilization in Uganda," http://internationalbudget.org/wp-content/uploads/UgandaStory English.pdf.

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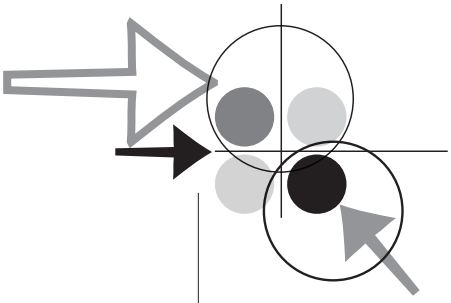
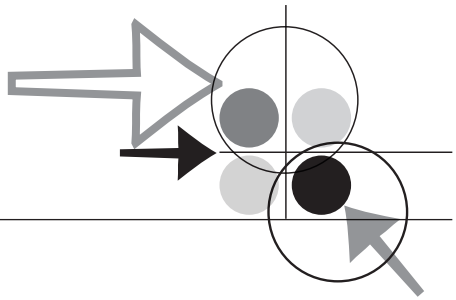


PART I

The first several chapters of this book describe the major mechanisms and diagnostic tools of political-economy analysis. Public policy making is a complex process, often characterized by the strategic interaction of stakeholders in continuously evolving contexts. To navigate reform successfully, practitioners need to identify the theoretical logic behind development problems, as well as the political-economy tools that will allow the analysis of their causes and the identification of potential solutions. Thinking in a nuanced fashion about the way in which political incentives can promote or hinder development can lead to feasible and desirable agendas for change.



CHAPTER 2

Accountability and Corruption: The *What* Question

Let us start with the first essential questions any analysis should ask: *What* is the development problem to be addressed? *What* are its main manifestations? We begin the chapter with some generic answers to these "what" questions and introduce the reader to a preliminary diagnosis of the symptoms. Corruption, pervasive political clientelism, and endemic rent-seeking behavior are signs of development failure. They are highly visible marks of "bad" equilibria, and it is likely that they affect the poor disproportionately. What are their immediate or proximate causes? Corruption, patronage, and other outcome-distorting phenomena imply that somewhere, somehow, in the institutional chain of task delegation and political representation, something is not working well.

These malfunctions are generated by a broken or weak relationship of responsibility or accountability. In some cases, politicians are not doing their job, and the electorate lacks the capacity to sanction them through collective action. In other cases, bureaucrats shirk their duties and fail to implement accurately the mandates conferred on them by politicians. Even if the locus and depth of the problem differ across policies, sectors, and countries, the generic diagnostic of problematic accountability mechanisms applies widely.

FIGURE 2.1 Conceptual Map of Accountability, Corruption, and Related Governance Problems

Accountability	Types of accountability	Corruption	Addressing accountability
• What does it mean? • How is it relevant to development? • Consequences of accountability	• Accountability in democratic regimes • Accountability in single-party regimes • Accountability in authoritarian regimes	• What is corruption? • How is it relevant to governance and accountability? • Types of corruption	• Mechanisms to address accountability and governance • Unintended consequences of such mechanisms

Source: Authors.

Therefore, this chapter focuses on accountability and the varieties of governance problems as key areas of interest for any development practitioner. Among the entire universe of governance problems, we focus mostly on corruption and political clientelism (or patronage) as prime suspects for derailing development in many parts of the world. Figure 2.1 introduces the conceptual map of the chapter.

Objectives of Chapter 2

By the end of this chapter, readers should be able to do the following:

- Understand the varieties of accountability.
- Recognize the different types and manifestations of poor governance, corruption, and patronage.
- Go beyond normative connotations of *accountability*, *clientelism,* and *corruption.*
- Link general concepts of accountability, corruption, and clientelism to real-life situations.

What Is Accountability?

The concept of accountability is closely related to other notions such as *political representation*, *responsiveness*, *reliability*, *responsibility*, *mandate responsiveness,* and *governance* (based on Przeworski, Stokes, and Manin 1999, 8–10).[1] In a general sense, accountability refers to the normative as-

sumption that governments act in the best interest of the people or their citizens.[2] Accountability implies a relationship between citizens (as "principals") and politicians (as "agents"), through which the agents are routinely monitored and sanctioned to ensure effective delivery of benefits to their constituencies (Kitschelt et al. 2009, 742).

However, given the diversity of individual preferences in society, how can citizens make sure that the aggregated opinions of the majority lead to policy outcomes that reflect the will of the people? More precisely, in what forms of political representation do government actions and outcomes most closely align with citizen mandates for politicians?

Nobel Prize winner Amartya Sen endorsed multiparty democracy as the best vehicle for accountability by positing that no famine has ever occurred under that type of rule:

> It is not surprising that no famine has ever taken place in the history of the world in a functioning democracy—be it economically rich (as in contemporary Western Europe or North America) or relatively poor (as in postindependence India, or Botswana, or Zimbabwe). Famines have tended to occur in colonial territories governed by rulers from elsewhere (as in British India or as in an Ireland administered by alienated English rulers), or in one-party states (as in the Ukraine in the 1930s, or as in China during 1958–1961, or Cambodia in the 1970s. (Page 16 in Sen, Amartya ©. 1999. *Development as Freedom*. By permission of Oxford University Press, www.oup.com)

Elected officials, according to the argument, do not want to be voted out of office for failing to prevent a famine. The explanation implies that at the opposite end of the spectrum, authoritarian governments do not have incentives to respond promptly to food crises since the public cannot hold them accountable (see Concepts in Practice 2.1).

Complicating Sen's observation is the fact that both representation and accountability come in many shapes and forms. In fact, there is no single path linking political representation to any uniquely robust type of accountability. Democracies rely on regular elections, through which voters can sanction nonperforming politicians. Despite the fact that this possibility of penalizing representatives is a crucial component of mandate responsiveness, it does not automatically translate into accountability and good governance. If elections are not free and fair, or if the poor lack the capacity for collective action, voters fail to punish corrupt representatives. In contrast, autocracies either dilute or completely lack direct electoral accountability. In some cases, however, they feature sophisticated systems of institutional checks and balances that ensure effective sanctioning of politicians and bureaucrats who shirked their mandates. The following sec-

CONCEPTS IN PRACTICE 2.1

Democratic Institutions, Famines, and Food Shortages

What is the logic that brings together famine occurrence and democratic elections in developing countries? If politicians fail to prevent catastrophic deaths as a result of widespread famines, they are penalized by the voting public and lose elections. Therefore, the political incentives generated by elections in democracies drive food policy to a better outcome than could be achieved otherwise, in the absence of the mechanisms of accountability.

Before Amartya Sen brought to the fore the role of democratic institutions and accountability, the dominant theory on the cause of famines focused on severe food shortages brought about by natural causes (drought, floods, unfavorable weather, and the like). The author analyzed the great famine of Bengal, which occurred in 1943 and caused around 3 million deaths, and concluded that food decline was not the major cause of the catastrophe. The problem, instead, resided in the declining real wages of the rural workers and farmers, combined with increasing prices for food. Since these factors pertain to the political-economic domain, the argument suggested that the solution might lie in the institutional capacity of the public to sanction politicians and bureaucrats who fail to enact preventive policies.

After 1947, India has experienced many episodes of severe hunger, but the death toll has rarely reached the threshold that qualifies food scarcity as famine (a possible exception is the Bihar famine of 1966–67). In contrast, China lost tens of millions of lives in the aftermath of the severe famine of 1958–61. Not only did the government fail to prevent this devastation, but the real damage was carefully hidden from the public eye. The data on the number of starvation deaths were publicized only after Mao's death. In the absence of an alert media or any form of political opposition and accountability, the autocratic government failed to respond to the crisis, with dramatic consequences.

Despite the fact that the argument has been criticized for not explaining the occurrence of famines in some democratic countries (like Ethiopia) or numerous starvation deaths in many Indian states since independence, it still sets the standard for the debate on "nontechnical" solutions to development problems. Indeed, bringing in political institutions, incentives, collective action, and broad questions of the accountability of politicians to voters has enhanced our understanding of the variation in policy responses to food crises around the world.

Source: Sen 1999, http://www.nytimes.com/2003/03/01/arts/does-democracy-avert-famine.html?pagewanted=all&src=pm. See also Brass 1986.

tions examine accountability mechanisms in democratic and nondemocratic settings.

This chapter next discusses different forms of political representation and the variety of accountability relations they trigger. For now, let us start with democracies.

Government Accountability in Democratic Settings

To illustrate accountability pathways in democracies, let us imagine that in democratic Country X, where the infant mortality rate is among the highest in the world, the public demands a reform of the health care system that addresses the issue promptly and effectively. Subsequently, the majority preference for health policy is transmitted to politicians through a number of channels: voting for the party or candidate that runs on a health care platform in elections, writing letters to the elected district officials, and conducting national opinion polls confirming the popular will. Once politicians who ran on an electoral platform to address health care reform are in office, voters can check government responsiveness by comparing campaign promises with actual policies. Has the government promptly initiated a health care bill? Did Party A, which won a majority in the legislature, maintain the political position on health care reform advertised during the campaign? If the answers to these questions are positive, based on the best abilities of voters to evaluate the match between campaign promises and actual policies, then the government is responsive to the preferences of the electorate. Achieving robust accountability, however, requires two extra steps:

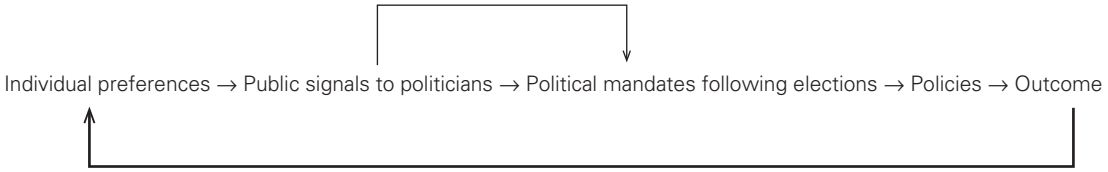
- An *evaluation of the implementation* of the health care reform voted on in the parliament, approved by the president, and actually carried out on the ground must be conducted. Has the infant mortality rate, for example, improved at a reasonable pace following the new law or reform?
- Contingent on the answer to that question, the voters must be able to *punish* or *reward* the government for the concrete results achieved. For example, if the outcome satisfied or did not satisfy the majority of citizens, then the political party in office could win or lose the next election.[3]

Figure 2.2 shows the causal path between the heterogeneous preferences of citizens and final policy outcomes. The institutionalization of such a sanctioning mechanism through which citizens can punish or reward politicians based on their policy performance is key to the concept of government accountability. Democracy is the only such institutional arrangement, or "rule of the game," that formalizes a *direct* relationship of responsibility between citizens (as principals) and politicians (as agents) through three mechanisms:

- Regular free and fair elections
- Guaranteed political rights and civil liberties
- Institutional checks and balances.

A necessary, if not sufficient, component of democracy and the main ingredient for an accountable democratic government, periodic free and fair elec-

FIGURE 2.2 The Path between Citizen Preferences and Policy Outcomes



Source: Adapted from Przeworski, Stokes, and Manin (1999, 9). Copyright © 1999 Adam Przeworski, Susan C. Stokes, and Bernard Manin. Eds. *Democracy, Accountability, and Representation.* Vol. 2. Reprinted with the permission of Cambridge University Press

tions ensure that voters have unconstrained access to the political process and that each vote has equal weight in determining the electoral outcome.

What Are the Inner Mechanics and Modes of Democratic Accountability Relations? Politicians use campaigns to identify themselves with the policies preferred by the majority of voters. Ideally, regularly held, free and fair elections guarantee a certain consistency between campaign promises and policies, if the voters have the capacity to act collectively; that is, voters must be informed, be able to adequately monitor politicians and bureaucracies, and be able to elicit credible promises from politicians.

However, accountability can manifest itself in many ways and depends on *the timing of events* (when can voters monitor the delivery of goods—before or after election day?) as well as on *the nature of the promises* (tangible private goods such as cash or consumer appliances, or public goods such as health or education?). Not all relationships of accountability are ideal or desirable. Some, such as the clientelistic exchanges in table 2.1, might be the second-best alternatives, when politicians cannot promise anything else, or might even be detrimental to development.

Types of Political Accountability in Democratic Politics. Table 2.1 summarizes various types of links between citizens and politicians, with implications for the relationship between the two sets of actors.[4] Of the main modes

TABLE 2.1 Modes of Accountability and Time Horizon for Performance Evaluation

Time horizon for evaluation of agent's performance	Mode of accountability	
	Indirect (programmatic)	**Direct (clientelistic)**
Past performance	Retrospective evaluation of *public* good delivery	Retrospective evaluation of *private* good delivery
Future performance	Prospective evaluation of *public* good delivery	Prospective evaluation of *private* good delivery

Source: Authors, building on Kitschelt (2000) and on Kitschelt et al. (2009).

of political accountability, the "indirect" category—which corresponds to candidate selection based on electoral platforms and the delivery of public goods—often decouples both *timing* and *benefits* of the delegation relationship:

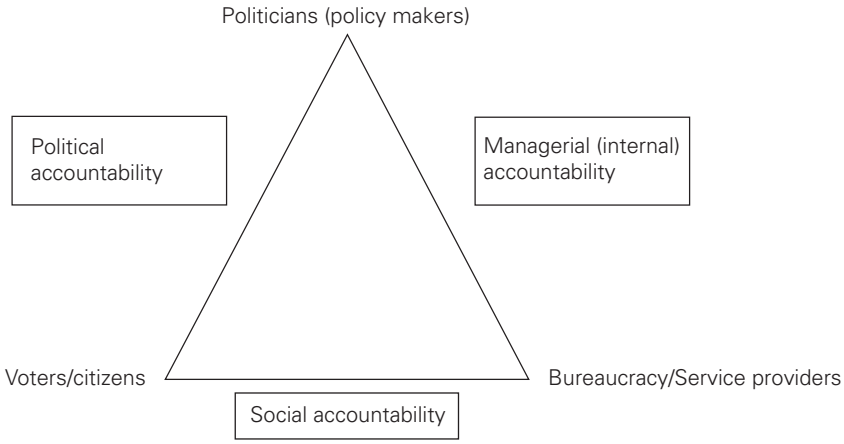
- First, there is a temporal lag between the date of election and the timing of policy evaluation. Usually, pre-electoral policy promises, as opposed to tangible handouts or public sector jobs, take longer to yield fruits. Even more importantly, parties lump many issues together in order to offer policy packages before elections (Kitschelt 2000, 850–851). Improving literacy or reducing infant mortality are only a subset of a much broader political agenda advertised to voters. At the ballot box, citizens vote for labels that often combine their preferences on education and health policy with areas as diverse as gay rights or foreign affairs. This process filters majority will and policy stances over multiple dimensions through concrete forms of political representation. Therefore, the temporal ties of accountability as well as voters' individual policy gains are decoupled and only indirect.
- Second, the benefits and costs of post-election policies, by definition, accrue to all voters, not only to the supporters of the electoral winners (Kitschelt 2000, 845).

The type of relationship that rests on parties offering complex issue packages and on citizens voting the match between their preferences and party platforms is called programmatic linkage between voters and politicians (Kitschelt 2000, 850).

At the other end of the spectrum, political clientelism refers to an exchange of tangible benefits for a citizen's vote. Clientelism (often associated with corruption) reduces the time lag between vote and benefits but has as its main consequence the delivery of private goods targeted to small constituencies rather than to society at large.[5] Monitoring and sanctioning constitute institutional dilemmas for both modes of accountability. In the case of indirect or programmatic ties, they are key devices for disciplining politicians and bureaucrats. For clientelistic ties, they are also tools in the hands of politicians who want make sure that voters comply with their part of the deal (Kitschelt et al. 2009, 744).

Depending on the types of actors involved in a relationship of accountability, we can also distinguish among three accountability types: *political, managerial (internal),* and *social accountability*. This primer will explore all forms of accountability. Some chapters apply more to political or to social accountability. Others, such as chapter 6 on principal-agent theory, are more useful for understanding managerial accountability and dwell less on

FIGURE 2.3 Varieties of Accountability



Source: Adapted from World Bank (2004), 6–10.

direct relationships between voters and politicians or between citizens and bureaucracies.

Figure 2.3 illustrates the three-way relationship among citizens, politicians, and the bureaucrats charged with implementing policies, along with the types of accountability that are shared by those groups. Governments function best when politicians are accountable to voters, bureaucrats are accountable to both voters and politicians, and individuals and groups are able to act collectively to bring about needed reforms. In reality, sadly, this condition is rare. In diagnostic political-economy analysis, it is worth asking repeatedly, On what leg of the triangle is the problem really located?

Government Accountability in Nondemocratic Settings

Despite the fact that free and fair elections provide a direct channel for monitoring and sanctioning politicians who did not deliver on their promises, elections might not be the only mechanism of accountability that leads to provision of public services and development. Chapter 1 pointed out that even if, relative to other regimes, competitive elections create incentives for good governance, the theoretical and empirical literature suggests that democratic institutions do not automatically eliminate the potential conflict of interest between voters and (elected) public policy makers. As later chapters will demonstrate, problems of information asymmetries or agenda manipulation mean that elections do not necessarily correct this divergence (see

Barro 1973; Besley 2006; Ferejohn 1990). As long as voters' potential for collective action is severely constrained by informational or institutional problems, democracies cannot do much to improve development outcomes. Elections by themselves are not sufficient for ensuring robust accountability. In fact, studies show an ambiguous empirical relationship between democracies and the redistribution of wealth and income, as well as between democracies and the provision of better public services for the majority of the population. This area of research deserves further attention.

We will now discuss forms of accountability under various types of nondemocratic political regimes, as well as the importance of institutional mechanisms in ensuring government responsiveness. First, a clarification is in order. Both democracy and authoritarianism are umbrella categories for many subtypes of institutions that generate their own incentives and obstacles to collective action. One-party regimes tend to rely heavily on coercion and ban other parties or political challengers. Authoritarianism includes a plethora of institutional arrangements, such as military regimes (which may or may not allow party competition), monarchies, partyless polities, theocracies, and hybrid regimes that combine elements from both democracies and autocracies and, in many cases, allow elections and limited multiparty competition.[6] We explore varieties of accountability in some of these institutions in the section that follows.

Single-Party Regimes and Accountability. As a prominent extreme example of a one-party political arrangement, the classic Communist system adopted in the former Soviet Union and Eastern Europe was characterized by the fusion of the unique party apparatus and the state.[7] The window dressing of formal elections combined with repression or totalitarianism allowed only weak or nonexistent accountability mechanisms. Several factors underlie the lack (or weakness) of government accountability within this type of regime:

- Citizens can make no direct institutionalized appeal to government; the members of the legislature are often selected either directly by the bureaucracy or by citizens participating in elections that are usually neither free nor fair.
- State power is self-legitimized; because the officials are self-declared "permanent repositories of public good," accountability, by definition, is not an issue.[8]
- The majority of policies are designed by a small nucleus of party leaders, are often passed by decree, and relatively few even reach the compliant legislature.

- The principle of duplication of functions applies: a small number of party members execute the same de facto governing functions as the state bureaucracy. Therefore, there are no robust institutional checks and balances.
- The system, in general, lacks processes of routine policy contestation: the factions or party "wings" are usually purged, and the repressive mechanisms keep the civil society under tight control.

These obstacles do not automatically imply that there are no private or public spaces of dissent. In some contexts, local councils or municipal governments become vibrant forums of policy contestation; in others, selected policies are submitted for real debates in the national parliaments. Overall, however, single-party regimes have significantly fewer and weaker pockets of dissent and accountability than their democratic counterparts. Ordinary citizens have little or no recourse to public policies.

Authoritarianism and Accountability. In authoritarian states, in general, because of the lack (or poor quality) of elections that would penalize rulers for reneging on policy promises or provision of public goods, there is little or no direct and institutionalized link of accountability between citizens and the government. Nevertheless, as we have already seen, with respect to certain development indicators, some countries that do not hold free and fair elections perform better than their democratic counterparts. Cuba, as noted, has better health outcomes than Chile or Costa Rica, and China has reached high literacy rates. What explains this pattern? According to political economists seeking to understand the mechanics of autocracies, some alternative modes of political accountability might give incentives to the executive to deliver public services (Ames 1987; Tullock 1987; Wintrobe 1998; Haber, Razo, and Maurer 2003; Bueno de Mesquita et al. 2003; Crystal 1989). These incentives derive from the following features:

- Institutional checks and balances
- Certain rules of selection and succession for the top echelon of political leaders
- Time horizon and survival considerations for the political leader
- Specific mechanisms through which autocratic politicians were able to commit to bureaucratic cadres that they will refrain from expropriation of investments (Gehlbach and Keefer 2011)
- Ruling-party institutionalization (Gehlbach and Keefer 2011)

- Political career incentives (that is, climbing up the hierarchy of the hegemonic political party might require demonstrating competency at the local or regional level)
- High capacity of monitoring and sanctioning bureaucratic behavior (for example, prohibitively high penalties for corruption, noncompliance, and the like).

However, these varieties of alternative accountability differ significantly from their democratic counterparts in both *domain* (accountability along a given dimension) and *scope* (accountability to whom). The spaces of public policy contestation are narrower in nondemocracies, and state repression is a disciplinary tool often used to block potential dissenters from effectively articulating sensitive political claims. Moreover, autocratic leaders face threats and must therefore be "more accountable" to a small subset of society that constitutes their coalition of support, not to the citizenry at large (Bueno de Mesquita et al. 2003; Haber 2006).

Testing this theoretical logic, some empirical studies have found a strong correlation between regime type and the delivery of public goods: accordingly, because political accountability is monitored and sanctioned through elections, democracies perform better overall than autocracies in delivering the policies and goods demanded by the vast majority of society (Bueno de Mesquita et al. 2003; Deacon and Saha 2006; Lake and Baum 2001; Acemoglu and Robinson 2006; Boix 2003; Meltzer and Richards 1981). On the other hand, other strands of research contradict these findings, arguing that dictatorships redistribute more than democracies (Wintrobe 1998), or that there simply is no systematic difference in fiscal or development policies across regime types (Cheibub 1998; Mulligan, Gil, and Sala-I-Martin 2004). Between 1990 and 2004, for example, there was no statistically significant difference between democracies and autocracies in total inflows of foreign direct investment (Gehlbach and Keefer 2011). Beyond the generic debate, increasing evidence indicates that in the nondemocratic regimes that perform well in economic growth and development outcomes, some form of institutional checks and balances has evolved (see Concepts in Practice 2.2 for an example of checks and balances in Iran). Over time, the credibility of commitment to some good policies on the side of the government has reduced graft opportunities and corruption.

In sum, accountability is an essential component of governance, whether a regime is autocratic or democratic. When mechanisms for accountability are missing from political institutions, corruption flourishes and growth and development stall. In the next section, we address the symptoms often present when accountability problems arise and persist.

CONCEPTS IN PRACTICE 2.2

The Case of Budgetary Decisions in Iran

Iran's post-1979 constitution conferred political power on two different institutions: a directly elected president and the supreme leader who is not directly elected. The president formulates the yearly budget, and the *Majlis-e Shora-ye Islami* (the Islamic Consultative Council, or legislature) approves it. The supreme leader has large constitutional powers, ranging from control of *bonyads* (foundations that own many enterprises and that constitute a significant share of the economy) all the way to the right to guide general economic policies and supervise their implementation. In addition, two other bodies have significant powers in the legislative process. The Expediency Council mediates disputes between the Guardian Council and the Majlis, whereas the Guardian Council ensures the compatibility of proposed legislation with Islamic law and the constitution.

On many occasions, the interaction between these branches has highlighted effective mechanisms of alternative accountability and the existence of institutional checks and balances. In June 2002, for example, the Majlis decided to audit the Iranian broadcasting entity, based on an inquiry into its public procurement practices. The debate was blocked by the Guardian Council, which had invoked the fact that the broadcasting agency was under the direct jurisdiction of the supreme leader and that the Majlis did not have full authority over it. The speaker of the Majlis pleaded the case in front of the supreme leader, arguing that, in the past, parliamentary commissions had conducted public audits of the broadcasting organization. He also asked for a revision of Article 198 of its Internal Affairs Code so that the Majlis could exercise its full audit authority. In the end, the Expediency Council revised the code and allowed the Majlis to exercise full audit authority on *all* state organizations, including those under the direct supervision of the supreme leader.

Another example relates to annual budget institutions in Iran. Since 1979, no budget had ever been contested. However, the Guardian Council rejected the draft of the 2002–03 budget draft ratified by the Majlis. As a result of the disagreement, the Expediency Council convened a meeting with the representatives of the Majlis, members of the Guardian Council, and members of the Budget Committee in the legislature to mediate the dispute in a timely manner. The Expediency Council ruled in favor of the Majlis with respect to some objections of the Guardian Council. Interestingly, out of the five areas of budget dispute, the one most closely related to economic development and growth (the provision of financial guarantees for foreign investors) was awarded to the legislature.

Source: World Bank (2005).

Common Symptoms of Malfunctioning Institutions: Corruption and Its Relatives

One of the most common and detrimental signs of poor governance and lack of accountability in developing countries is corruption, or "the mis-

use of public office for private gain." The classic illicit transaction usually involves "(. . .) a bribe by a private citizen to a public official in return for some service that the official should either provide free of charge (. . .) or not provide at all." (Treisman 2007, 211–212).

First, it is important to understand what actions constitute corruption. In the context of a principal-agent relationship, corruption occurs when the agent (implementer) shirks the policy implementation tasks in exchange for a private gain, and the principal (boss) lacks either the will or the capacity to monitor or sanction deviant behavior. Some argue that corruption might also have different meanings in different cultural settings. For example, the density of tight solidarity networks in Africa compared to Europe has been put forward as a potential determinant of the social acceptability of corruption in Sub-Saharan Africa (de Sardan 1999). Beyond different potential meanings, corruption also occurs in various forms. One of its close relatives, political clientelism or patronage, is a prevalent phenomenon in many countries and has often been identified as an essential symptom of market failure and suboptimal development.

Types of Corruption and Clientelism

Some political economists distinguish between different forms of corruption based on two criteria: (1) the scale on which it occurs; and (2) the content and systemic implications. "Low-level" corruption implies deliberate policy misimplementation for the extraction of private gains when the existing laws should normally sanction such behavior (based on Rose-Ackerman 1978, 1999, 53–54; 2006, xviii–xx). Three examples of low-level corruption follow:

- A public official solicits a bribe to tolerate a certain behavior that would otherwise be at odds with extant laws (for example, no traffic ticket in exchange for a small amount of money).
- The bureaucrat in charge of allocating a scarce public benefit selects the beneficiaries based on their capacity to pay an illegal fee (for example, an official in the ministry of education extracts bribes to award coveted scholarships).
- An official can make a certain public benefit appear scarce and take advantage of this distortion (for example, issuing driver's licenses or business registrations in exchange for a bribe).

"Grand" corruption implies a more systemic machinery of rent extraction involving both low- and top-level bureaucrats and politicians (Rose-

Ackerman 2006, xix–xx). For example, an entire branch of the state bureaucracy (such as the police or the judiciary) cooperates with leaders of organized crime organizations in exchange for generous bribes. Another instance of grand corruption is also reflected in the efforts of high-level politicians to extract rents from firms that want to use their influence to obtain government contracts.

Other typologies of corruption based on the systemic implications of the pathology distinguish among several forms of behavior: *administrative corruption, nepotism, state capture, prebendal predation,* and *kleptocracy*. Each is described below.

Administrative corruption consists of illegal payments and gifts to bureaucrats for a laxer policy implementation (Hellman, Jones, and Kaufmann 2000, 2). Commonly employed, this type of corruption is the "looking the other way" behavior of many regulatory agencies around the world in exchange for the favorable interpretations of laws and regulations. It occurs everywhere, but the scope of the problem and its probability of detection vary dramatically. For example, the U.S. Department of the Interior was sued for blocking auditors from pursuing US$30 million worth of oil royalties not paid by large petroleum companies operating in the Gulf of Mexico. Thousands of miles away, in the squatter settlement of Kibera, located in the outskirts of Nairobi, Kenya, small water providers pay significant bribes to the officials of the water utility for timely delivery and reasonable pricing. These bribes translate into higher prices for the customers of the water kiosks. The courts cannot do much to remedy administrative corruption in a squatter settlement that is excluded from the city water utility networks altogether (McPherson and MacSearraigh 2007).

Bureaucratic nepotism, another type of common governance problem, refers to favoritism, such as favors granted, contracts awarded, or appointments to office made by those in power, shown to narrowly targeted interests. This preferential treatment might or might not be related to clientelism or political patronage.

Another systemic type of corruption is *state capture,* defined as the influence of powerful economic interests "in the formation of laws, regulations, and policies" through the illegal provision of "private benefits for public officials" (Campos and Pradhan 2007, 3; Hellman, Jones, and Kaufmann 2000, 2). State capture can be conceptualized as "the privatization of public policy" in which large companies manipulate the rules of the game to their own advantage by providing illicit payments to politicians and bureaucrats (Hellman, Jones, and Kaufmann 2000, 2). Post-Communist Russia and Ukraine

are classic examples of close ties between business oligarchs and the top echelons of the state.

Prebendal predation refers to a special form of state capture generated by state bureaucrats who, empowered by their official position and in the absence of state resources directly allocated to them, abusively extract their own discretionary rents directly from citizens (Englebert 2009; Joseph 1998). The term *prebendal* originated from the system of benefits granted to clergy by the Anglican Church. In a development context, it refers to bureaucratic agencies of failed states and individuals associated with them that extract as much as they can from the population, while never providing any public or private services in return. In many African countries throughout the 1980s and 1990s, despite poststructural adjustment fiscal austerity that significantly reduced the salaries of public officials, public employment steadily increased. Bureaucrats, organized in pyramidal prebends, were able to extract resources from officials occupying a lower hierarchical position. Going down the ladder, the lowest-placed officials abusively extracted bribes and illegal fees directly from citizens. In the 1990s, it is estimated that in Malawi, for example, up to one-third of the total collected revenue was "stolen" by civil servants. Similarly, artisanal gold miners in the Democratic Republic of Congo pay exorbitant random taxes and fees to government workers (see Concepts in Practice 2.3).

CONCEPTS IN PRACTICE 2.3

Prebendalism and Artisanal Gold Mining in the Democratic Republic of Congo

Taxation or rent extraction through the exercise of sovereign authority, legal or not, is a typical prebendal behavior in many African countries. According to World Bank estimations, the "effective" tax rate that poor artisanal miners have to pay to many tiers of bureaucrats, army, and police approximates 60 percent in the Democratic Republic of Congo. In some of the gold mines of the Orientale Province, studies have identified 30 separate taxes and fees levied on gold miners, traders, and operators. For artisanal miners, these include buying mining permits, paying 20–30 percent of their production to mine operators, being taxed several times by multiple layers of officials, and putting aside a certain amount of money each week for payoffs to the army or police. Failing to pay subjects miners to administrative and police harassment. Similar practices have been documented in other DRC provinces such as Katanga and the Kivus.

Sources: Fahey (2008); Pole Institute (2007).

Finally, another type of grand corruption, *kleptocracy*, is known as the most extreme form of state capture, usually associated with highly personalistic rule. It implies that the control of the state is in the hands of a highly discretionary individual ruler or his or her small coalition of supporters, who use their political power to pocket a large part of society's resources (Acemoglu, Robinson, and Verdier 2004). There are many examples of heads of states and their close associates amassing large fortunes while in office. In response to the discovery of Swiss bank accounts in his name, Mobutu Sese Seko, the former president of Zaire, replied: "I would estimate my accounts total less than fifty million dollars. What is that for twenty-two years as head of state in such a big country?" (Borgenicht and Regan 2008, 116). Evidence shows that during the 1970s, around 15–20 percent of the operating state budget went directly to the Mobutu family's numerous bank accounts (Leslie 1987; Acemoglu, Robinson, and Verdier 2004).

In content, the broad concept of corruption is closely associated with related theoretical constructs such as *political clientelism*, or the exchange of material benefits for votes. However, despite the fact that corruption and clientelism overlap significantly, their relationship might be more complicated than initially thought. The conceptual territory, for example, of "noncorrupt" clientelism or "nonclientelistic" corruption is currently under theoretical scrutiny (Piattoni 2001; Keefer 2007; Kitschelt and Wilkinson 2007).

Political patronage or clientelism is a "transaction, or a direct exchange of a citizen's vote in return for concrete payments" (such as cash, consumption goods, food, clothes, or household appliances), "or for continuing access to employment, goods, and services" (such as public sector jobs, access to food or housing subsidies, or educational scholarships)[9] (Kitschelt and Wilkinson 2007, 2). This is one of the most pervasive intersections between skewed political incentives and underprovision of public services around the world.

A growing body of literature looks at the causes, manifestations, and effects of political patronage. What is its effect on voting patterns? Are some groups more susceptible than others to handouts at the expense of services? Is there always a trade-off between programmatic and clientelistic politics? Is clientelism independent of coercion, or do the two travel together? How does clientelism affect the provision of public goods and economic development? How do political parties or individual candidates monitor voters' behavior on election day? Do voters or citizens always correctly attribute the tangible goods received in exchange for their votes to the right party or tier of government? The answers to such questions are consequential for our understanding of the relationship among political patronage, accountability, and, ultimately, development. As previously suggested, in some circumstances, clientelism might just constitute a "second-best" alternative form of

CONCEPTS IN PRACTICE 2.4

Clientelism, Ethnicity, and Gender in Benin

In a unique case set in Benin, the author of a study was able to randomize the messages of electoral candidates to voters during the first round of the March 2001 presidential election. In some villages, candidates running for office communicated to voters a broad public policy platform. They emphasized political issues related to national unity, eradication of corruption, poverty alleviation, and education reform, among many others. In other local communities, politicians used electoral appeals focused more narrowly on patronage jobs or financial support for local fishermen and cotton producers. This field experiment enabled the researcher to compare the effect of the two types of messages—programmatic (public good) messages and clientelistic (narrowly targeted goods) messages—on the electoral behavior of voters. The findings suggested that (1) keeping ethnic affiliation constant, clientelistic appeals were particularly effective when undertaken by incumbents or local politicians and (2) men were more likely than women to respond to clientelistic messages communicated by local candidates for office. The study found strong support for the hypothesis that clientelistic campaign messages affect individual voting behavior.

Source: Wantchekon (2003).

accountability and substitute for the void of general policy responsiveness of politicians to voters. In other cases, patronage might act as a de facto form of corruption and undermine robust electoral accountability. Concepts in Practice 2.4 examines clientelism and voting patterns in Benin.

In all their forms, severe clientelism and corruption can have devastating consequences for development and economic well-being. Occasionally, however, positive side effects emerge. Both negative and positive features are discussed below.

Negative Consequences of Clientelism and Corruption

The most immediate consequences for economic development, social welfare, and government legitimacy are severe misallocation of public resources, budgetary distortions, expanding underground economies, and low state capacity for revenue extraction. Clientelism or patronage implies conditional relations between citizens and politicians. By definition, then, the poor who do not vote or support their patrons do not receive cash, water, electricity, access to public jobs, and the like.

Consider the impact of clientelism on traffic control in Dhaka, Bangladesh, for example. The traffic chaos generated by inefficient transportation scheduling and the poor condition of the 6,700 buses operating in the city have many negative effects: the high number of pedestrian accidents, deaths, general lack of safety, air pollution, delays, and so on. One traffic corridor alone has 50 percent of total buses operating on less than 30 percent of the total number of routes. Despite an extensive regulatory framework and stakeholder involvement, problems have persisted for a long time. The challenge seems technical at first glance: with better scheduling and newer buses, traffic could improve significantly. It turns out, though, that political patronage is a key part of the story. The Regional Transport Committee (RTC) is the public agency that grants route permits to bus owners. Political party leaders dominate bus owner associations, and they are represented in the RTC. Therefore, the RTC is the real hub of patronage distribution and has to allocate many more routes than technically feasible to satisfy multiple clients with political connections. Moreover, bus control is strategically important for political parties whenever they want to provide transportation for supporters to the sites of protests and demonstrations. As a consequence, all bus companies need political contacts even to obtain route allocations and scheduling favors. The result is severe overcrowding, increased pollution, and heightened risk of accidents (World Bank 2009).

In some cases, specific economic sectors or geographic locations are more prone to patron-client relations than others. The following example illustrates the intersection between reconstruction and political patronage in Malawi. In 2008, months before the parliamentary and presidential election, the Ndirande market in Malawi burned to the ground. Many small vendors lost all the booths and merchandise on which their livelihood depended. When similar incidents happened in other markets in the past, the reconstruction was relatively fast and efficient, with joint efforts of vendors and local officials. In contrast, in Ndirande, one year later, the first phase of reconstruction was not yet completed. Why?

The story starts many decades ago, during the nondemocratic period, when the single political party dominated the committee that regulated the market, coordinated vendors, and mediated disputes. At the time, there were no factions in the market-management institution. The advent of multiparty competition politicized the committee and splintered it into three sections, each one backed up by a party. What makes Ndirande special compared to other markets in Malawi is the overlap of ethnicity and political support. Because most vendors are ethnic Yao, Ndirande is the political fiefdom of one of the parties, the UDF, whose leader—a former president—is also Yao. The party leader himself, as well as other politicians, donated money to the mar-

ket committee for reconstruction efforts. It so happens that during the reconstruction attempts, a competing party, the DPP, won the national elections and replaced the committee leadership. When vendors went to the office in charge of collecting and disbursing money, they were told that the donated amount was much lower than what was needed and that some of it was "borrowed" by an official. Feeling a sense of injustice, vendors went to the DPP office and set it on fire. In retaliation, the incumbent party significantly cut funds for reconstruction and delayed the whole process (Cammack 2011).

Obviously, corruption takes a heavy toll on development. Bribes, extortion, and unpredictability of costs act as a deadweight tax on businesses, NGOs, and other organizations that may generate wealth and the provision of desirable public goods. To the extent that corrupt officials do not use such bribes to pursue progrowth investment, corruption may reduce the rate of economic growth and modernization of a country. Therefore, it can have the effect of making a society worse off.

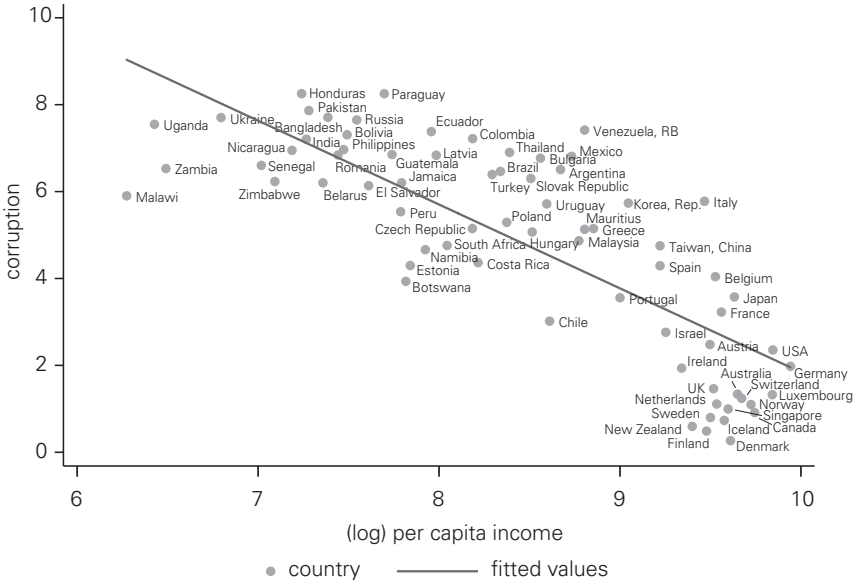
Effects of Corruption on Resource Allocation. If public policy goals can be easily altered by the payment of bribes to policy makers, some individuals and organizations may devote resources to furthering their own agenda. Because small organized groups (for example, trade unions or business associations) are able to lobby more effectively than larger groups (the general public), corruption and rent seeking opportunities may facilitate the growth of special interest legislation and regulation. Such regulations are likely to impose costs on large groups but generate benefits for only a narrow subset of the population (those who can lobby) (Tullock 1987). For example, protectionist tariffs against foreign competitors may increase the profits of an industrial sector even if, in some circumstances, they condemn the general public and other business sectors to consuming more expensive or inferior domestic goods and services.

In addition, to the extent that corruption is a form of arbitrary decision making by government and bureaucrats, the increased uncertainty of doing business may result in the outflow of money or in less foreign direct investment in a country (Wei 2000).

Even if some countries have simultaneously experienced growth and corruption, they face higher economic risks than contexts in which corruption is not prevalent. Systemic corruption also undermines government legitimacy, efficiency, and equity. Sometimes it can lead to the reversal of the political regime, or it can consolidate forms of predatory nondemocratic rule (Rose-Ackerman 1997).

Finally, as political power is correlated with economic wealth, it may be the case that the existence of corruption further entrenches inequality, as

FIGURE 2.4 The Link between per Capita Income and Corruption



Source: Data from Persson and Tabellini (2003).
Note: Lower score = less corruption. The perceptions of corruption are an average score of Transparency International's Corruption Perceptions Index between 1995 and 2000. The per capita data is from the World Development Indicators (1993–1998).

the rich and politically powerful are able to protect themselves from the government (through bribes or political action), while more marginalized groups are less able to prevent the abuse of public office for private gain (Olson 1982). As seen in figure 2.4, corruption affects—negatively and significantly—the general level of economic development.[10]

Can Corruption and Clientelism Have Some Positive Consequences?

The earlier literature on the causes and consequences of corruption argued that both low-level and grand corruption may play several political-economic roles in the functioning of developing states. The two types of corruption affect individuals and states in different ways.

Small-scale corruption might be a symptom of a state experiencing the inherent tensions of rapid modernization. In some contexts, corruption and clientelism are just the natural expression of social capital; they divert politi-

cal claims from the class-based Western-centric left-right axis to ethnic and tribal affiliations (Chabal and Daloz 1999; de Sardan 1999).

As for *large-scale corruption,* under some circumstances, its side effects were thought to lead to more resources for private investment, open up access to marginalized segments of the population, and compensate for the low level of tax revenues characteristic of many developing states (Leff 1964, Huntington 1968, Bayley 1966, for a brief review see Szeftel 1998, 227).

In some developing countries, certain forms of corruption might be a necessary compromise between the state and vested interests, guaranteeing opportunities for corruption in some sectors while gradually creating "pockets of efficiency" in others (see Nye 1967 for Asia; see Geddes 1996 for Latin America).

In other contexts characterized by complicated ethnic, clan, regional, and religious loyalties and by factionalism, political clientelism has been hypothesized to help the democratic process. In other words, rather than being the problem or cause of malfunctions, it could allow a second-best equilibrium through which patronage relations and concrete material benefits to selected groups prevent or impede polarization and open conflict (Szeftel 1998).

A more recent and related theoretical contribution (North, Wallis, and Weingast 2009) seeks to explain the relationship between rent seeking and political violence. According to this narrative, in some contexts there is a clear trade-off between a certain level of patronage (or corruption) and conflict, with the implication that suddenly dismantling these rents would have unintended consequences for political stability. In other words, the feasibility of reform is constrained by the probability that violence would erupt if key groups in society stopped receiving the benefits they are used to. In a vicious circle, however, these rents generate a low developmental equilibrium. In contrast, societies that have solved this dilemma allow economic and political competition and are more developed in general.

Nevertheless, the more recent research on the topic overwhelmingly converges toward the negative consequences of corruption: perverse political and economic incentives, lower levels of accountability, and derailed development.

Both analytically and practically, the conceptual angles from which policy makers view corruption and political clientelism have profound repercussions for reform trajectories. With few exceptions, the governance reform agendas focus heavily on the civil service and public financial management as classic areas for dismantling political rents. According to several researchers, however, understanding the root causes of the phenomena might lead to different context-tailored recommendations. For example, efforts to create

more job opportunities in the private sector could be an effective alternative to combating corruption and clientelism in job-scarce environments where public sector employment is heavily politicized (Grindle 2007; Khan 2006).

In some sense, political-economy analysis gives the development practitioner both the feasible and the normative answer to such reform questions. "Second-best" solutions, or "good enough" governance, might be more sensible than textbook "first-best solutions" (Grindle 2007; Khan 2006; Rodrik 2008; Fritz, Kaiser, and Levy 2009).

Why Is Corruption More Prevalent in Some Countries Than in Others?

To date, we have a number of cross-national indicators of corruption that allow researchers to distinguish among possible causes. Although subject to continuous debates in academic and policy circles, several explanations have been proposed for variation in corruption among countries (Shleifer and Vishny 1993; Lambsdorff 2006; Treisman 2000, 2007):

- Large size of government
- Low economic development
- Low openness to trade
- Heavy reliance on fuel exports
- Short or nonexistent history of democracy
- The absence of a vibrant media
- Heavy government regulations
- Federalism
- The type of colonial legacy.

What Policy Interventions Have Governments Pursued to Reduce Corruption?

Although the menu of policy interventions is diverse and often the effect of specific policies on outcomes is far from clear, a few examples of reforms that governments have pursued to reduce corruption follow:

- Reform of civil servants' wages
- Investments in a free media
- Establishment of an independent judiciary
- Promotion of some degree of market competition through privatization
- Participation in international anticorruption conventions

CONCEPTS IN PRACTICE 2.5

The "New Public Management"—from New Zealand to the World

Although initially developed in high-income democracies (especially New Zealand, the United Kingdom, and the United States), the new public management approach raised hopes that it could be adapted to developing countries to help reduce incentives for corruption and government waste. The main focus of NPM was to disaggregate bureaucracies in smaller units, incentivize competition with the private sector, foster budgetary accountability, and focus on efficiently providing citizens with the services they need.

Whatever its impact on developed economies, NPM's effect on developing countries was very limited for several reasons:

- Many public sector providers did not face real competition from private sector companies, a fact further exacerbated by weak judicial institutions.
- A public sector ethos (that is, service to the community) was not fostered by aspects of NPM; therefore, its ability to thrive in a context in which there was little or no social expectation of serving the community limited its effectiveness.

Source: Manning (2001).

- Establishment of independent anticorruption committees
- Adoption of effective oversight institutions.

As discussed in Concepts in Practice 2.5, some of these reforms were initiated as part of an approach called "new public management" (NPM) adopted with varying success by many governments around the world (Dunleavy et al. 2011).

Summary

Accountability and governance are essential ingredients for durable development. This chapter disentangled the analytical mechanisms at work and suggested that different policy contexts may feature alternative forms of accountability. The second part of the chapter went into the details of corruption and political clientelism and patronage and their complex relationship

to accountability and development. Finally, the chapter briefly summarized common policy solutions for tackling corruption.

Notes

1. *Reliability* is used by Downs (1957); *responsibility* by Riker (1993); *representation* by Pitkin (1967); *responsiveness* by Dahl (1971); *mandate responsiveness* by Stokes (2001); *accountability* by Przeworski, Stokes, and Manin (1999); and *governance,* by Kaufmann, Kraay, and Zoido-Lobaton (1999).
2. This classic definition of political representation comes from Hannah Pitkin (1967). These concepts have a long and complicated intellectual history, but for the purposes of this exposition, it suffices to maintain some level of generality.
3. Needless to say, this example assumes a unidimensional (single issue) policy space and oversimplifies the electoral mechanism. It serves here as just an illustration.
4. This classification builds on Kitschelt (2000, 845–846).
5. The definition of *public good* versus *private and club goods* will be elaborated in chapter 3.
6. Typology based on Hadenius and Teorell (2007).
7. This section is based on Kornai (1992, 37–39).
8. Ibid, 56.
9. Adapted from the definition by Kitschelt and Wilkinson (2007, 2).
10. However, the relationship between corruption and economic development is complicated by the direction of causality: which causes which? Some empirical findings contradict the idea that corruption breeds low development and point at potential positive effects on the economy (Rose-Ackerman 2006).

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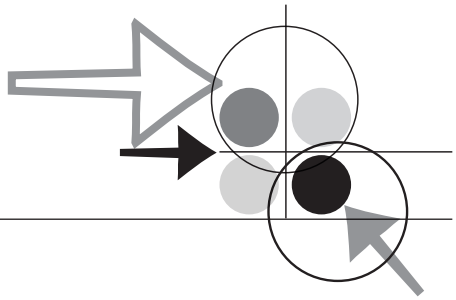


CHAPTER 3

The Collective Action Problem in Development: The *Why* Question

Chapter 2 explored the most common manifestations of development failure: corruption, patronage, state capture, and the like. Missing or weak accountability relations among citizens, politicians, and bureaucrats skew incentives, allow abuses of power, and lock in suboptimal outcomes. In this chapter, we start asking *why* accountability fails and poor governance thrives. Why do citizens not act together to challenge their nonperforming representatives? Why are some interest groups effectively shaping policy, while the poor can rarely act collectively to claim public goods? Why do some groups mobilize despite all odds of success, challenge corrupt governments, and take up ambitious pro-development reforms?

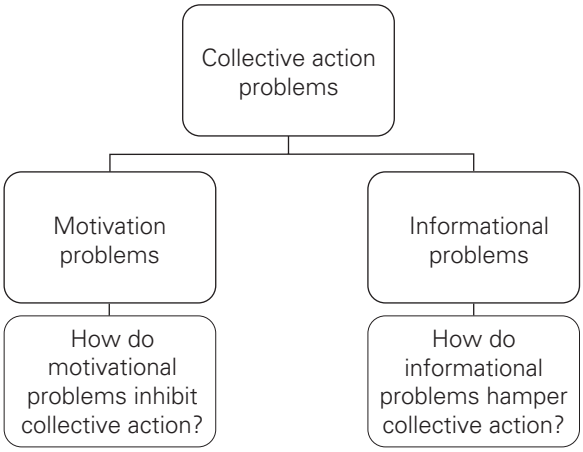
Once the practitioner or reformer has diagnosed the specific development problem or the answer to the *what* question discussed in the previous chapter, joint action of various actors is necessary in many cases to correct it. In legislatures, party coalitions are often needed to form governments or to pass reform bills. Broad platforms of civil society organizations are some-

times the solution for reaching a well-functioning social accountability relation between citizens and bureaucrats. Popular protests against corrupt politicians or governments come to life because of individuals and organizations that invest significant resources and efforts in shaping social movements.

In some circumstances, the poor obtain favorable outcomes when they vote for political parties committed to bringing development to their constituencies. Referred to as *collective action*, this act of coming together can introduce a host of challenges. If the expected costs of political action are high or if they fall exclusively on a small group of entrepreneurs—whereas the benefits of policy change are equally distributed among actors—reform might never be initiated. Mobilizing relevant stakeholders, building coalitions, and making claims for policy change require time and dedication and can entail considerable political, financial, and fiduciary risks. The case study in appendix C will take the reader through all the trials and tribulations along the path of a real reform in the Philippines.

This chapter first introduces the major social dilemmas that citizens and groups face whenever they have to act together for a better development outcome. Going up a level of abstraction, we explore the concept of public goods. In a very broad sense, public goods are the final development goals for which actors and stakeholders have to come together in the first place and from which all of them benefit. The chapter then explores how different groups in society might be more or less able to overcome pro-development collective action problems and discusses the possible implications for policy making (see figure 3.1).

FIGURE 3.1 Conceptual Map of Collective Action Problems



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Objectives of Chapter 3

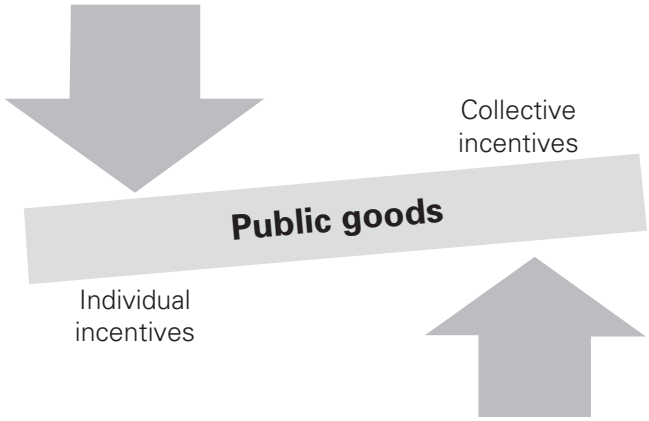
By the end of this chapter, readers should be able to do the following:

- Grasp the concept and typology of private, public, and club goods and how they relate to development
- Understand why social dilemmas occur in development with respect to the production and maintenance of public goods or common-pool resources
- Explore the implications of collective action problems
- Think about some concrete factors that may facilitate or inhibit collective action
- Be familiar with major modes of collective action
- Link collective action obstacles to real-life situations.

Collective Action Problems: At the Heart of Development

The title of this section paraphrases Elinor Ostrom, the recent Nobel Prize winner in economics, who argues that collective action is the answer to the *why* question (Ostrom 2010). Development deals primarily with the production of public goods, ranging from provision of basic water and electricity to the release of information about the way governments raise taxes and allocate spending to their constituents. Individuals and organizations often face several *social dilemmas* whenever the time to join forces and act together comes. These dilemmas refer to the mismatch between individual and group incentives to participate in the production of a public good. The logic is quite straightforward: if someone else incurs the costs of pro-development action while I derive full benefits, why would I contribute in the first place? Therefore, the individual's incentives not to pay the costs but to reap the benefits turn out to undermine the general interest of the group. Consequently, development efforts are often derailed by short-term self-interest that prevents reform from reaching ultimate outcomes. For instance, if citizens cannot act collectively to sanction corruption and abuses of political power, relationships of accountability fail, and distribution of public goods such as basic education and health suffers. In contrast, at the local or national level, effective collective action, through which actors articulate claims for public goods and monitor implementation, often translates into better development outcomes. Motivation is not the only source of social dilemmas. Large discrepancies in the information available to citizens, voters, or stakeholders make coordination and alignment of individual and group incentives hard to achieve.

FIGURE 3.2 Impact of Individual and Collective Incentives on a Public Good



Source: Authors.

Figure 3.2 illustrates the impact of the two sets of incentives (individual and collective) on the production of a public good or the maintenance of a common-pool resource. Individual incentives resulting from short-term self-interest tend to undermine development, whereas collective (or group) incentives to act together lead to a superior outcome. This mismatch (or misalignment) between *individual* and *collective* incentives is the central *social dilemma* that hampers efforts to act jointly for the common good.

To allow for a better understanding of such a mismatch and its consequences on development, this chapter will introduce in greater detail the key concepts of public goods and social dilemmas and will present some of the factors that exacerbate or inhibit collective action problems.

What Are Public Goods?

The term *public goods* refers to goods and services that simultaneously meet the following criteria:

- They are *nonrivalrous*, meaning that one individual's consumption of the good does not reduce the quantity or quality of that good or service for other participants in its consumption.
- They are *nonexcludable,* meaning that individuals cannot be stopped from consuming the good, even if they pay nothing toward the cost of providing the good.

TABLE 3.1 Goods Quadrant—Public Goods versus Club (toll) Goods, Common-Pool Resources, and Private Goods

Difficulty of excluding potential beneficiaries	Rivalry of use	
	High	**Low**
High	*Common-pool resources or common goods:* for example, lakes, irrigation systems, fisheries, forests, annual budgets, intergovernmental fiscal transfers in federal systems	*Public goods:* for example, peace and security of a community, public safety, national defense, knowledge, fire protection, air, government transparency, corruption reduction or eradication
Low	*Private goods:* for example, food, clothing, general consumption goods	*Club (toll) goods:* for example, theaters, private clubs, day-care centers

Source: Adapted from Ostrom (2005, 24). Ostrom Elinor. *Understanding Institutional Diversity*. 2005 © by Princeton University Press. Reprinted by permission of Princeton University Press.

- The pure public goods are also *nonexhaustible,* meaning that the good cannot be depleted by consumption (Samuelson 1954). Examples of pure public goods are air, natural landscapes, and national defense.

Goods or services that do not meet at least the first two characteristics listed above are called private goods, meaning either that their consumption is competitive or that only those who pay can consume them. Table 3.1 introduces a typology of goods based on two dimensions: *excludability of use* (can members prevent noncontributors from access to the good or service?) and *rivalry or subtractability of use* (if some users participate in the unrestrained consumption of the good, will this diminish other users' consumption?) (Ostrom 2005).

Most goods and services, however, are never purely public or private but fall somewhere in between. If group members who contributed to the production of the goods have the power to exclude noncontributors from using the goods or services, these are often labeled *club goods*. Sometimes, club goods are provided on a large social scale and resemble public goods. Other times, the club size is so small that they are de facto private goods.

Diagnosing the development problem implies thinking first about the good to be produced or maintained and its nature. It is well worth keeping in mind that the good or service may constitute a variety of tangible or intangible outcomes (national defense, water, electricity, information provided by governments to citizens, knowledge, popular protests demanding greater accountability, and so on). In chapter 1, we briefly discussed the difference between INSTITUTIONS (with capital letters) and institutions (lower-cased) (Banerjee and Duflo 2011). To paraphrase the authors, we could also think of PUBLIC GOODS that fulfill the conditions above. They are the broadest

and most general examples of nonexcludability, nonrivalry, and nonexhaustibility of use that all of us recognize. This type includes the following:

- Clean air
- Universal primary education
- Universal health care
- National defense
- Knowledge
- Transparency of government
- Corruption-free bureaucracy
- Economic growth
- Development.

In the broadest possible sense, economic growth and development are public goods. Therefore, pro-development policy reforms require concerted action and the coordination of many different actors. Their effects are beneficial over the medium or long term for all participants, even if they entail short-term costs.

In some cases, policy goals and outcomes that intuitively resemble public goods still generate competitive or excludable behavior among participants. For example, in its pure state, universal primary education is often designed as a public good. However, school location, staffing policies, or delays in teachers' salaries make it de facto a club good, since certain constituencies who lack access to schools are excluded from its benefits. If school building and staffing occur only in areas of the country that provide political support for the incumbent party, other regions or localities will be deprived of access to education. Similarly, national defense is a public good since everyone benefits from security, but some actors—for example, government contractors—derive substantial private benefits from it (Aranson and Ordeshook 1985; Bueno de Mesquita et al. 2002). Often, if not always, public policies are mixtures of private and public goods.

As an analytical starter, the following questions might be useful:

- What is the good to be produced or maintained?
- Who are the producers of the good?
- Who benefits from the consumption of the good?
- How does it score on the three dimensions: *nonrivalrous, nonexcludable,* and *nonexhaustible?*
- Is the good or service private, public, or club?
- What are the costs and benefits of public good production or common-pool resource maintenance?

- Are they concentrated (incurred by a narrow subgroup only) or diffused (spread out widely in the group or population at large)?

Diagnosing development problems implies clarifying first the *what* of reform. The answers to this question can take many forms and shapes, including underproduction of the public good or inadequate maintenance of a common-pool resource. Once we grasp *what* exactly is being underproduced or undermaintained, we can then analytically move to understanding the *individual* and *group incentives* surrounding the good or service.

What Factors Inhibit Collective Action?

Two general categories of factors lead to the collective action problem or to the difficulty groups have in mobilizing effectively for policy change. First are *motivational problems:* if somebody else can provide the public good without contributions from those who will benefit, there is always the temptation to free ride. Free riding means participating in the consumption but not in the production of the good. Second are *information problems*, meaning either that groups lack crucial information or that one group of stakeholders derives power from having more information than others (Ostrom 2010; Gibson et al. 2005).

Motivational Problems and the Temptation to Free Ride

The incentive to free ride—or, simply put, to reap benefits without incurring costs—occurs for a variety of reasons. In some circumstances, as rational choice theory would predict, it is a simple matter of individual morality. In such situations, the free rider is a typical case of noncompliance with the rules of the group or other community norms. In other cases, however, even if individuals (or groups) are willing to participate in the production of public goods, they might not have the necessary resources to do so. For example, the poor can rarely afford to make the initial individual investment that a public good requires, irrespective of their rational calculations, incentives, or sense of morality (McKean 2000). Not paying water fees, for example, could mean either classic free riding or the inability of individual water users to afford the fee.

Collective action, or the act of mobilizing stakeholder groups to produce or maintain a good, is also challenging because it entails additional types of investments: pooling of costs and pooling of preferences. The former suffers from the inherent free-rider incentives just discussed. The latter dimension implies that, in addition to the individual motivation to contribute or not to

the collective efforts, the way in which all preferences of actors get aggregated to produce policy outcomes can obstruct or promote certain modes of collective action. Preference aggregation depends not only on resources but also on the similarity of views and goals, as well as on information available to groups and individuals in society. Often, the poor fail to mobilize and effectively claim public goods precisely because they lack information about other groups that might have common interests. In addition, poverty—understood as the number of people whose income is lower than a given threshold—is in continuous flux. Some poor households, neighborhoods, or generations manage to escape it; others fall into it despite not being born poor (Krishna 2010). These differences in social mobility across groups and individuals sometimes induce significant heterogeneity of policy interests and goals, lack of cohesion, and overall disincentives to act jointly for specific policy outcomes. In other contexts, even if collective action happens and groups of actors decide to pursue reform together, divergent views with respect to either final policy goals or the very process of reaching them can easily dismantle coalitions. As we will see in the next chapter, institutions arise to solve collective action problems (albeit not always pro-development collective action) and to facilitate cost and preference pooling.

Let us briefly unpack the two categories of collective action problems. Motivational problems usually stem from a high individual ratio of costs to benefits induced by the size and heterogeneity of the group trying to mobilize (Olson 1965, 48 for the first three categories):

- The larger the group, the smaller the fraction is of the total benefit an individual receives from cooperating.
- The larger the group, the less likely it is that some subgroups in society will mobilize to obtain the public good, given the ratio of costs to benefits they would incur.
- The larger the group, the greater are the organizational costs (in the absence of coercion or other incentives from third parties).
- The more heterogeneous the assets, preferences, information, stakes, or identity of the participants, the less likely it is that collective action will be successful. For example, the poor and the rich, or members of different ethnic groups, more often than not fail to cooperate in reaching policy goals that might be beneficial to all.

As a result, large numbers of the poor or diffuse citizens are less likely to solve their collective action problems than, say, corporate interest groups. The discrepancy is indeed at the very heart of development, as it leads to skewed outcomes.

Information Problems

Information problems, in contrast, plague groups of all sizes. *Information asymmetries* occur when an actor has information that others do not have. In this context, stakeholders who know more tend to have significant bargaining advantages over other groups and, hence, have high stakes in conserving such discrepancies. Voters often lack basic information about the electoral process, rules, procedures, political candidates, and policy options. Low turnout generated by missing information prevents groups from electing the candidate or party that would best represent them in legislatures and is thus a manifestation of a collective action problem. Opaqueness of budgetary processes and general lack of transparency about government activities impede the coordination of civil society or opposition groups around policy issues that could trigger greater accountability. A later chapter is dedicated entirely to informational constraints in policy change.

In addition to missing information, *moral hazard* and *adverse selection,* two special cases of information asymmetries that will be elaborated in chapter 7, can be serious obstacles to collective action. Moral hazard refers to a situation in which the better-informed individuals or actors engage in risky actions for an organization or collective precisely because they do not bear the full costs of such actions. Leaders of political parties, social movements, or reform teams do not always know enough about the real incentives and stakes of the rank and file within their group. This lack of information about the true actions of the members of an organization often does not allow leaders to adequately monitor commitment to the movement or party. For example, in many countries legislators may win an election because of their association with a party with a reputation for competency, prudence, and the like. However, if after the election such legislators can support risky bills and easily change political parties for opportunistic reasons, without penalty or negative career consequences, the collective action capacity of parties to pursue policies in parliaments is greatly reduced, and volatility increases.

Adverse selection refers to circumstances in which, for example, the leaders of organizations or coalitions have no way of properly assessing their new recruits' or members' true degree of individual commitment to the organizational goals. In cases of adverse selection, the actors who lack ideological or organizational commitment are also paradoxically more likely to join. For example, if a civil society organization offers concrete material benefits to all the new recruits to a citizen group advocating social accountability, as opposed to only the ones who prove commitment, it might attract members who are not interested in collective action per se and greater accountability but rather in the short-term tangible handouts. In this case,

adverse selection during recruitment may attract high numbers of participants with low true commitment to collective action.

Acquiring the necessary information to act collectively is costly. Political parties, for example, reduce significantly the voters' cost of collecting information about policy platforms and electoral candidates, as well as the politicians' costs of disseminating information to voters during campaigns (Aldrich 1995; Kitschelt 2007, 525). Imagine a world without parties: individual politicians would have to bear the entire informational costs of campaigns during the process of running for office, and individual voters would have to gather information on all candidates' policy positions, with very limited or nonexistent prior knowledge of them. In this sense, parties solve informational and coordination problems and thus facilitate collective action. Papua New Guinea is one of the very few countries that has democratic competition without political parties.

Social Dilemmas of Delivering Public Goods

Political economists commonly use three closely related models to demonstrate the social dilemmas of cooperation between individuals and groups in society for achieving the delivery of public goods: *the prisoner's dilemma, the tragedy of the commons, and the so-called logic of collective action*. Think of these models as metaphors for human interaction. They are short parables that illustrate the strategic reasons underpinning an important puzzle: why cooperation for public goods and development does not occur even when it is clear that it would make everybody better off. In fact, we play varieties of the prisoner's dilemma game, and we face tragedy-of-the-commons challenges in our daily lives: in the family, at work, and in social settings. In large communities, these problems only get worse—especially in the absence of institutions that can correct for misaligned incentives.

Prisoner's Dilemma

The prisoner's dilemma refers to a situation in which actors achieve suboptimal outcomes because they distrust each other in a strategic environment. The exercise of the next chapter will explain in greater detail why prisoners are the main characters of the story. A basic setup for a two-player prisoner's dilemma game demonstrates that in the absence of institutions that can shift the equilibrium, two individual actors decide not to cooperate to produce the good that would have benefited them both collectively. The prisoner's dilemma is an often-used analytical model that helps us understand why in-

dividuals or groups do not cooperate in the realization of optimal development or reform outcomes (producing or maintaining the good). The Game Theory 3.1 exercise following this chapter demonstrates how this concept applies to a community of farmers deciding to cooperate on joint irrigation work. Despite the fact that contributing to the building of an irrigation system would have benefited both farmers, neither of them trusts that the other will want to incur costs while she could just reap benefits, and the system is never built. This behavioral deadlock is especially prevalent in cases in which there have been no previous interactions or trust-building mechanisms developed between the two farmers. Additionally, large perceived differences among potential cooperators may induce a focus on dissimilarities rather than a search for common grounds. For instance, to give a real world example, in Tamil Nadu, India, and Guanajuato, Mexico, farmers who belonged to irrigation organizations were significantly more likely to cooperate for water conservation if they perceived each other as equals in landholding and social status (Bardhan and Dayton-Johnson 2007, 123).

Tragedy of the Commons

The tragedy of the commons is a multiplayer prisoner's dilemma and illustrates a scenario in which many actors attempt to maximize their *individual* consumption of the good. However, by doing so *collectively*, they deplete or exhaust the good, with negative results for everyone. The tragedy of the commons usually plagues the use and maintenance of common-pool resources as diverse as the environment; forests, lakes, and open land; fish and wildlife; budgetary processes in parliaments; and intergovernmental fiscal arrangements in federal or decentralized systems. As an explanatory tool and diagnostic, the tragedy of the commons is particularly useful in cases in which the long-term *maintenance* rather than the production of the good is at stake.

We use the management of fisheries to illustrate this collective action problem. Many local communities around the globe depend on fishing for their livelihood. Individual fishermen have incentives to overuse resources. If they fail to cooperate by setting and enforcing consumption ceilings, they reduce the overall population of fish. For example, in Bodrum, Turkey, and in the Bay of Izmir several obstacles impeded such cooperation in the 1980s: overcrowding, quick gain from fishing, high demand associated with the tourism industry, and, above all, the lack of a viable institution that would mediate conflict between competing groups. In Bodrum, for example, the rules that prevented overfishing were not enforced by the Ministry of Agriculture. In addition, the time horizons and stakes of the fishermen groups were too large and too heterogeneous. Because they could not mobilize to

enforce compliance with fishing rules, the result was a depletion of fish and an overall decline in the industry. By contrast, the Alanya community found innovative ways to solve its collective action problem. How? In the 1970s, the fish population reached low levels, and violent conflicts among local fishermen erupted. Therefore, a local co-op experimented with a trial-and-error system of allocating fishing licenses and monitoring compliance. Every year, the lists of fishing sites were endorsed by all individual fishermen and stored with the local mayor and police. Second, a lottery decided on the assignment of fishermen to a specific site. Third, to provide equal access to the most productive fishing sites, between September and January each fisherman had to move east each day and rotate the lot. This local arrangement managed to mediate disputes, enforce norms of fairness, prevent overcrowding, and optimize the capabilities of each site (Ostrom 1990, 19, 144–146).

The Logic of Collective Action in Small and Large Groups

The logic of collective action[1] alludes to a similar mismatch between individual and collective incentives and explains theoretically why large groups in society lack effectiveness and power when they attempt to mobilize politically. According to this logic, group effectiveness relies on members' assessment that sufficient individual gain will come to them through participation or that free riders (those who do not share the cost of producing the good) will not receive the same level of benefits: that is, for collective action to succeed, the gains that result from collectively advocating for a policy outcome must significantly exceed the costs of mobilization.

This misalignment of individual and group incentives means that only certain groups that derive high individual benefits with lower administrative costs of mobilization (business lobbies, for example) are likely to mobilize successfully and pursue favorable outcomes. In contrast, diffuse groups of citizens affected by development policies or reform are less likely to mobilize. Hence, the power, resources, and intensity of the actors' preferences will be severely unbalanced. As a consequence, the final outcome may be skewed toward groups that can effectively solve collective action problems.

The electric power sector in India provides an example (Lal 2006). It is estimated that up to three-fourths of poor Indian households, especially in the rural areas, lack access to electric power. What are the observable causes? The public sector owns 90 percent of electricity production, is politically captured, and is plagued by severe rent seeking and corruption. Regressive subsidies benefiting large farmers contribute to a large sector deficit, estimated to have reached up to 1.5 percent of gross domestic product. Reform attempts began in the early 1990s and have been at the top of electoral party

platforms ever since. Despite these efforts, severe underdelivery of electricity still persists.

In the federal system of India, most of the political obstacles related to electricity provision occur at the state level, where rich farmers benefit disproportionately from subsidies at the expense of all other users. The reliance on electric pumps for irrigation varies dramatically among states (12 percent in Rajasthan; 67 percent in Punjab), but across the board, medium and large farmers who own more than two hectares of land and benefit from subsidized electric pumps have tended to block reforms that would lead to the reduction of subsidies. Surveys have consistently indicated that users (including small farmers) would be willing to pay realistic electricity prices if the quality of delivery were adequate.

Despite high political salience and users' willingness to contribute to the production and maintenance of the public good, vested interests (large farmers) have traditionally blocked effective change that would entail subsidy reduction. What explains their success? First, big farmers are more politically consequential than the poor. As landowners and notables in their communities, they have the capacity to deliver many votes for the incumbent parties in exchange for benefits such as subsidies. Second, large farmers are better organized than the rural users who have a lower socioeconomic profile; therefore, they manage to lobby and secure subsidies at the expense of widely scattered rural communities that lack the capacity and resources to act collectively. Another similar collective action problem involving agricultural interests is discussed in Concepts in Practice 3.1.

These three theoretical constructs illustrate classic social dilemmas and emphasize the key idea that self-interested, rational individuals acting independently of each other have strong incentives not to cooperate (or to free ride) on the production or delivery of public goods (the prisoner's dilemma and the logic of collective action) and to deplete a limited shared resource (tragedy of the commons), even if long-term cooperation would be in their best interest. Accordingly, an individual will only rarely, contingent on the size of the group and the cost-benefit ratio, have incentives to join in the production of public goods. The immediate implication is that only powerful and cohesive interest groups are successful in achieving favorable policy.

Identifying and Evaluating Collective Action Problems

When identifying a collective action problem in the course of a political-economy analysis, the analyst should do five things: (1) understand the type

CONCEPTS IN PRACTICE 3.1

Prices of Agricultural Products in Sub-Saharan Africa

One of the seminal political-economy studies of agricultural policies in Africa found that the different potential for collective action of various stakeholder groups best explained the rural and urban differences in development (Bates 1981). In East African urban centers, oligopolistic industries and labor unions wanted high consumer prices for the manufactured goods they produced but low food prices, since 60 percent of the budget of an average urban dweller was spent on food. As a consequence, the state bureaucrats (representatives of marketing boards) offered farmers prices below the world market price, using the difference either as rents or for the political co-optation of well-organized urban interests. Thus, both urban labor and capital were allied against farmers and managed to lock in policies that favored them at the expense of rural areas. Among farmer groups, because of their weak capacity for collective action, only small farmers suffered the policy consequences. In contrast, larger farmers with lobbying power managed to obtain generous subsidies from the state. This means that in countries with greater populations of large farmers (Côte d'Ivoire and Kenya, for instance) the agricultural policies were more favorable to the rural dwellers than in contexts characterized, paradoxically, by a more equal distribution of land among smaller farmers.

Why did small-scale farmers lack the capacity for collective action that would have enabled them to mobilize against the state and effectively demand change? First, the costs of political voice were too high, as small farmers tend to be more geographically dispersed and the state occasionally relied on coercion to enforce unpopular policies. Second, in some circumstances, these farmers have discovered alternative exit routes that allowed them to avoid the policy trap: the use of cross-crops that combined different crop prices, hedging financial risks, abandoning joint ventures that were not advantageous, and labor market migration, among others.

Source: Bates 1981.

of public good to be produced or maintained; (2) think analytically about the type of mismatch between individual and collective incentives to cooperate or join forces; (3) carefully examine the factors that led to the dilemma (motivational or informational) in the first place; (4) sift through the potential political-economic roots of these factors (does the motivational problem occur because of rational calculations, community or cultural norms, or discrepancy in resource endowments among individuals or groups?); and (5) consider whether correcting the collective action problem might lead to another similar dilemma (for example, will punishing noncompliant members of the group require a few compliant members to pay the full costs of enforcing the rules, whereas the benefits of enforcement extend to all?).

Often, adequate answers to these five questions have major implications for policy solutions. For example, if free riding occurs because of strictly ra-

tional considerations, monitoring and sanctioning might work well (Ostrom, Gardner, and Walker 1994). If, however, the root cause of free-riding behavior resides in poverty or, more broadly, in the incapacity (as opposed to lack of will) to contribute to the public goods, positive selective incentives for participation could do a better job of solving the problem.

On a more granular empirical level, research has identified a series of concrete factors that hamper mobilizational effectiveness and generate the logic of the collective action problem:

- *The number of interest groups.* Theoretically, the larger the number of interest groups, the more likely it is that they would offset each other's influence in shaping government policy. However, empirical research suggests that the number of such groups might not necessarily be a crucial factor. Many interest groups can receive policy concessions from the government if they are able to mobilize effectively (Bates 1981; Keefer 2004, 251).
- *Cohesion of the (economic) sector.* The less fractionalized the mobilizing group representing a certain sector, industry, or constituency is, the more likely it is to have an impact on policy (Frieden 1991, Keefer 2004, 252).
- *Magnitude of gains or losses caused by a potential policy change.* Higher stakes increase interest group effectiveness (Frieden 1991). For example, firms that are capital intensive, operate in natural resource extraction and management, and would incur high costs in redeploying their assets, have a stronger interest in acting collectively and deriving policy gains from governments (Bates 1981; Keefer 2004, 252).
- *The number of participants and the risks entailed by collective action.* As already argued, large groups do not often organize effectively to act in their shared interests. In many contexts, the poor or the consumers fail to influence public policy, despite their large numbers. Also, not all forms of collective action pose the same risks of participation. It is certainly less risky for individuals to take part in participatory budgeting exercises organized by civil society organizations in cooperation with municipal governments than to protest against corrupt political leaders who do not shy away from using force against contenders. Some rough estimations of the number of individuals who support a cause *and* choose to actively participate in contentious forms of collective action to achieve it (protests, demonstrations, and the like) suggest the so-called 5 percent rule: only 5 percent of all members of large social groups that would benefit over the long term from the outcome get involved, with the number of activists being overwhelmingly exceeded by bystanders (Lichbach 1998, 12, 17). In conclusion, smaller groups with high stakes have a greater likelihood of organizing effectively, potentially to the detriment of larger groups.

Are individuals and groups thus doomed to be trapped in collective action dilemmas? Despite both motivational and informational problems that lead to social dilemmas and plague collective action, some groups do manage to solve their incentive problems, organize, and attempt to lobby the government on behalf of their policy interests. Then the question becomes, When and under what conditions are these groups successful in obtaining their preferred policy result? The good news is that despite grim predictions, numerous studies confirm that several collective action problems are overcome every day (Ostrom 2000, Banerjee and Duflo 2011).

The examples of mobilizational incentives from India and Africa introduced above focused on powerful interest groups that manage to act jointly. These are not the only modes of collective action in town.

Political parties, for example, routinely aggregate policy and ideological preferences, information flows between voters and politicians, discipline members who do not comply with organizational rules, and mediate interaction between citizens and decision makers. *Social movement organizations* often rely on their core activists who manage to mobilize many participants in protests, demonstrations, or other forms of popular mobilization against bad governance. *Reform teams* sometimes develop as part of preexisting policy networks and bypass social dilemmas. For pro-development collective action, all these modes often build *coalitions*. How do these modes of collective action relate to accountability and a better provision of public goods (see Concepts in Practice 3.2)?

The subsequent chapters explore in depth how delegation or information constraints in organizations impede effective collective action for policy change. In addition, even when it occurs, agenda manipulation and lack of credible commitment might still prevent collective action from fully translating into the final development outcomes. Chapter 9 will review the broad repertoire of possible solutions to collective action problems in detail.

Game Theory and Collective Action: Modeling Social Dilemmas with Nash Equilibria

Collective action problems can be understood and analyzed using the basic tools of game theory.[2] In essence, a collective action problem is a situation in which actors have no incentive to organize and obtain a favorable change in the status quo. That is, they are "stuck" in a suboptimal equilibrium. Game theory has a specific name for all situations, whether optimal or sub-

CONCEPTS IN PRACTICE 3.2

Political Parties as Collective Action Problem Solvers

One of the greatest controversies in the political economy of development is whether democratization fosters development by ensuring that large groups of voters can hold policy makers to account. The fact that many East Asian countries appeared to pursue successful development outcomes despite having nondemocratic regimes that could, in theory, engage in arbitrary rule seems to partially refute this claim. The existence of institutionalized incumbent parties with clear rules of selection, succession, monitoring, and sanctioning created an alternative mechanism through which broad coalitions of stakeholders could act jointly and keep the unelected leaders accountable. More broadly, the existence of institutionalized parties has been linked by some studies to better development outcomes. In contrast, weak accountability of party leaders to their members and constituencies might not automatically foster development even in democratic contexts.

Source: Keefer (2011).

optimal, in which actors have no incentive to change their behavior: Nash equilibria.

A Prisoner's Dilemma[3]

Two neighboring farmers grow a crop to feed their families, and if there is some surplus, they sell to the nearby market.[4] The farms are equidistant to a nearby river. If the farmers could build an irrigation system and bring water to the farms, then the crops they could grow and harvest would increase dramatically, and they would be able to send their children to a nearby school. If the irrigation system is built, neither farmer can be excluded from its use (free-rider problem). Furthermore, building the irrigation system is costly and would require both farmers to work together to build the ditch, if they were still to have time to grow their crops. If one farmer tries to build the irrigation system alone, she will succeed; but because she will not have time to grow any crops, she would not be able to feed her family.

The preferences of Farmer 1 (the farmers' preferences are symmetrical), based on the payoffs she receives, are as follows:

- If Farmer 1 does not help build the irrigation system but Farmer 2 does, Farmer 1 receives the benefit of the irrigation system but does not bear any of the costs. From a purely selfish perspective, this is the optimal out-

come (highest payoff) for her. In this scenario, Farmer 2 bears the entire cost of the project but does not live to enjoy the benefits, as she had no time to tend to her fields.

- If Farmer 1 builds the irrigation system by herself, she bears the entire cost of the project but does not get to enjoy the benefits as she has no crops to harvest. Conversely, Farmer 2 enjoys the benefits of the irrigation system but bears none of the costs.
- If both Farmer 1 and Farmer 2 build the irrigation system, they both bear some of the costs (less time to grow their crops), but they both enjoy the benefits of higher crop yields.
- If neither farmer builds the irrigation system, they will enjoy a normal crop yield and incur no costs.

The diagram below conveys all this information but in a more concise format. There are two players, just as in the scenario of the two farmers. Each player has two options: cooperate or defect (not cooperate). The choices the players make determine their payoffs (benefits versus costs). To generalize the findings, the diagram uses the ordinal rankings of the players; a higher number denotes more utility—greater crop yield—allowing the farmer to buy more food for her family minus any costs associated with building the irrigation system and minus the initial loss of time tilling the field in order to dig the ditches.

	Cooperate		Defect	
Cooperate	3	3	1	4
Defect	4	1	2	2

Now let us think about how we can use the information to make predictions about what the farmers will do (hint: look back at the definition of the Nash equilibrium above).

Let's start with Farmer 1. Like any rational person, she wants to maximize her payoff (that is, maximize her crop yield and minimize her costs). However, she also knows that this outcome does not depend only on her actions but also on those of Farmer 2. Therefore, to decide what her optimal strategy should be, she needs to think about what Farmer 2 might do and condition her strategy on that expectation.

She can do this by running the following two-step thought experiment: if she knows that Farmer 2 would definitely build the irrigation system whether she herself cooperates or not, then her best action would be to defect (as she would get a payoff of four instead of three, the benefits of the irrigation system but none of the costs):

	Cooperate		Defect	
Cooperate	3	3	1	4
Defect	4♦	1	2	2

If she knows that Farmer 2 will definitely choose to defect, then her best action would also be to defect (a payoff of two versus a payoff of one):

	Cooperate		Defect	
Cooperate	3	3	1	4
Defect	4♦	1	2♦	2

Now let's think about Farmer 2. Like Farmer 1, she knows that her payoffs depend on the strategy of the other farmer. Through the same "thought experiment," it is possible to identify the strategy of Farmer 2. If she knows that Farmer 1 will definitely choose to build the irrigation system, then her best action would be to defect (as she would get a payoff of four instead of three):

	Cooperate		Defect	
Cooperate	3	3	1	4♦
Defect	4♦	1	2♦	2

If she knows that Farmer 1 will definitely choose to defect, then her best action would also be to defect (a payoff of two versus a payoff of one):

	Cooperate		Defect	
Cooperate	3	3	1	4♦
Defect	4♦	1	2♦	2♦

Given this scenario, both farmers have an incentive to defect, given how they expect the other farmer to react. As neither farmer can be made better off by unilaterally cooperating, this outcome constitutes a Nash equilibrium.

The prisoner's dilemma game is a simple but powerful tool for conveying how socially suboptimal outcomes can emerge from the rational behavior of individuals. For example, citizens in many countries would benefit if they could cooperate to fight corruption or perceived injustices. However, because every citizen would benefit from such an outcome, every citizen has an

incentive to try and free ride—let others fight for change—and, therefore, nobody cooperates.

Summary

This chapter has introduced collective action problems and explained how they can affect the provision of public goods. Given that some groups or modes of preference and cost aggregation may be more effective at overcoming collective action problems than others, unequal collective action capabilities can result in the persistence of skewed development outcomes. In addition to being symptomatic of underprovided public goods, collective action problems often plague many attempts at reform. This chapter helps policy entrepreneurs analytically identify and assess the costs, benefits, and feasibility of concerted action before they engage in the change process.

Exercises for Chapter 3: Collective Action Dilemmas

Exercise 3.1: The Unscrupulous Diner's Dilemma[5]

The facilitator explains the steps involved in the Unscrupulous Diner's Dilemma.

Steps in the exercise (time frame: ~40–45 minutes):
1. Read out instructions (1 minute)
2. Allow participants to read and answer (5–10 minutes)
3. Collect responses, tally responses, facilitate group discussion (10 minutes)
4. Class discussion (10 minutes)
5. Technical explanation (5–10 minutes)

Preparation and materials:
- Envelopes to be placed in the middle of the round table (one at each table)
- Pens should be available to all participants
- Copies of the handout of instructions
- Copies of the answer sheet
- Handout of key questions and group discussion
- Facilitator instructions

NOTE: There are three different scenarios to be used. Each table works through one of the scenarios.

Procedure:
1. The facilitator reads aloud the following instructions:
   I am going to distribute instructions and an answer sheet. Read the instructions and answer the questions on the answer sheet. Once you have read the instructions and completed your answers, place your answer sheet in the envelope in the middle of the table. DO NOT WRITE YOUR NAME ON EITHER DOCUMENT and MAKE SURE NO ONE SEES YOUR ANSWERS. Keep the instructions handy for the follow-up discussion. I will give you about 5–10 minutes to complete this.
2. The facilitator distributes the instructions handout and the answer sheet to all the participants.
3. The facilitator gauges the rate of completion of the assignment and gives participants a two-minute warning so that the activity can wrap up within its allotted 10-minute time frame. As part of the two-minute warning, the facilitator reminds participants that they should not write their

names on the answer sheet; when they have finished, they should put their answer sheet in the envelope in the middle of the table.

4. The facilitator explains:
   I will come around to collect the envelopes with the answer sheets and tally your responses. At the same time, I will give you a handout that includes two key questions. While I tally the responses on the answer sheets, please go ahead and discuss at your tables the two questions on the handout. Spend approximately 10 minutes in this discussion.
5. To tally the votes, the facilitator uses a blank answer sheet and notes for each option the total number of votes.
6. The facilitator walks around the room among the tables in a nonintrusive manner and pays attention to what is discussed. The facilitator notes a few comments from the tables that he or she can highlight as part of the transition to the lecture portion.
7. The facilitator gives the participants a two-minute warning to wrap up their discussion.
   A simple way to illustrate the tragedy of the commons is to remind participants of the coordination game (chapter 4). The suboptimal equilibrium (3,3) reflects a situation in which players do not cooperate (overgraze the commons), while the optimal equilibrium (4,4) represents a situation in which collective action problems are somehow resolved.

Coordination Game

	Cooperate		Unilateral	
Cooperate	4	**4**	1	**1**
Unilateral	1	**1**	3	**3**

8. The facilitator explains:
   Now that you have played the game and have had a chance to discuss with others at your tables some of the key underlying issues, let's find out the results of your individual decisions.
9. The facilitator announces the results and poses the following questions to the entire group:
   1. How many of you were surprised by the entire group's final tally?
   2. If yes, why?
   3. If no, why?
10. The facilitator then explains the case study activity.
11. The facilitator concludes with an explanation of the postexercise activity:

Exercise 3.1: Instructions Handout 1

You and some acquaintances are at a restaurant and have decided to split the bill evenly among yourselves, regardless of what anyone ordered (splitting the bill = dividing the total bill by the number of people at the table). There are two items on the menu: (1) an expensive meal and (2) an inexpensive meal.

If you had to pay the full cost of the meal yourself, you would prefer the inexpensive meal to the expensive meal. However, if you think that one or two others around the table will choose the inexpensive meal and the rest might choose the expensive meal, you would prefer to buy the expensive meal because you will be paying the average cost of the entire meal.

The worst-case scenario, from your perspective, is that most other people or everyone else orders the expensive meal and you order the inexpensive meal, resulting in your paying a higher price for the inexpensive meal.

You know a few things about the other dinner guests:

- One dinner guest is on a diet and the inexpensive meal has a lower caloric content.
- Another dinner guest has health complications and does not like to eat too much, and the inexpensive meal is a smaller portion.

Exercise 3.1: Instructions Handout 2

You and some acquaintances are at a restaurant and have decided to split the bill evenly among yourselves, regardless of what anyone orders (splitting the bill = dividing the total bill by the number of people at the table). There are two items on the menu: (1) an expensive meal and (2) an inexpensive meal.

If you had to pay the full cost of the meal yourself, you would prefer the inexpensive meal to the expensive meal. However, if you think that one or two others around the table will choose the inexpensive meal and the rest might choose the expensive meal, you would prefer to buy the expensive meal because you will be paying the average cost of the entire meal.

The worst-case scenario, from your perspective, is that most other people or everyone else orders the expensive meal and you order the inexpensive meal, resulting in your paying a higher price for the inexpensive meal.

You know a few things about the other dinner guests:

- Two diner guests are known to "enjoy their food" and will definitely be ordering the expensive meal.

Exercise 3.1: Instructions Handout 3

You and some acquaintances are at a restaurant and have decided to split the bill evenly among yourselves, regardless of what anyone orders (splitting the bill = dividing the total bill by the number of people at the table). There are two items on the menu: (1) an expensive meal and (2) an inexpensive meal.

If you had to pay the full cost of the meal yourself, you would prefer the inexpensive meal to the expensive meal. However, if you think that one or two others around the table will choose the inexpensive meal and the rest might choose the expensive meal, you would prefer to buy the expensive meal because you will be paying the average cost of the entire meal.

The worst-case scenario, from your perspective, is that most other people or everyone else orders the expensive meal and you order the inexpensive meal, resulting in your paying a higher price for the inexpensive meal.

You know a few things about the other dinner guests:

- Two of the other dinner guests, who are close friends, are in financial difficulty, and having to split an expensive bill would certainly not help their finances.

Exercise 3.1: Answer Sheet 1

Please indicate below, by ticking (√) the box next to the appropriate action, what you would like to do. PLEASE TICK ONLY ONE BOX.

Buy the expensive meal	
Buy the inexpensive meal	

Briefly explain why you decided to select one meal rather than the other.

Once you have completed your answers, put them in the envelope in the middle of the table.

Exercise 3.1: Answer Sheet 2

Please indicate below, by ticking (√) the box next to the appropriate action, what you would like to do. PLEASE TICK ONLY ONE BOX.

Buy the expensive meal	
Buy the inexpensive meal	

Briefly explain why you decided to select one meal rather than the other.

Once you have completed your answers, put them in the envelope in the middle of the table.

Exercise 3.1: Answer Sheet 3

Please indicate below, by ticking (√) the box next to the appropriate action, what you would like to do. PLEASE TICK ONLY ONE BOX.

Buy the expensive meal	
Buy the inexpensive meal	

Briefly explain why you decided to select one meal rather than the other.

Once you have completed your answers, put them in the envelope in the middle of the table.

Exercise 3.1: Key Questions Handout – Group Discussion

In your group, discuss the following questions:

1. How did the fact that you were splitting the bill affect your decision to select one meal instead of the other?

2. How did the information you had about the other participants affect your decision?

Notes

1. The logic of collective action was first introduced by Mancur Olson in 1965.
2. Readers interested in a more formal definition can consult the technical appendix (appendix B).
3. *Source:* Inspired from (Bardhan 1993).
4. Instructor note: If in a classroom setting, do exercise 3.1 (found at the end of the chapter) before having participants read this section.
5. *Source:* Inspired from (Gneezy et al. 2004).

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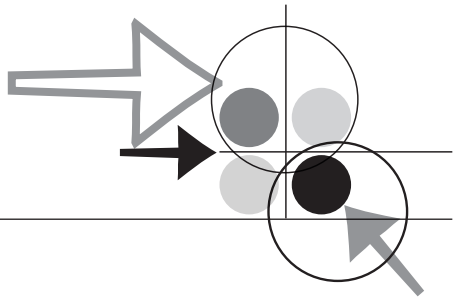


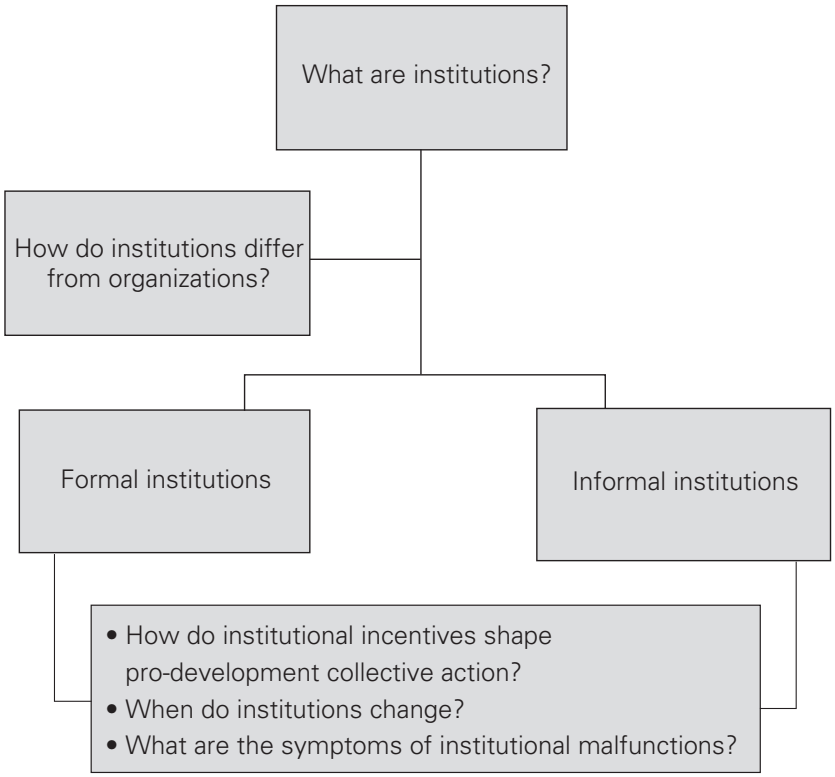
CHAPTER 4

Theories and Mechanisms of Political Economy: Institutions and Equilibria

Pro-development reform entails some form of institutional change. This chapter explores the inner mechanics of institutions and the incentives that they generate. Why do institutional malfunctions persist? Why are they so durable if they generate obviously suboptimal outcomes? When do institutions change? What is the relationship between collective action and institutional change? The decisions that policy makers (politicians, bureaucrats) make, as well as the reactions of stakeholders (citizens, interest groups, and businesses, for example) to these decisions, are shaped by the rules or the institutional context in which this interaction occurs.

The "rules of the game" shape policy makers' choices (that is, Should I provide public goods, steal the money, or pander to key constituents?). They also constrain or boost the collective action potential of stakeholders. The policy landscape usually consists of formal and informal institutions, and both types of rules influence incentives for action. Therefore, by developing the ability to map the institutional context, reformers can identify the feasi-

FIGURE 4.1 Conceptual Map: Understanding Institutions and Their Influence in Development



Source: Authors.

bility of different projects in light of the context-specific opportunities and constraints they face.

This chapter first defines institutions, links them to the collective action problem, distinguishes between different types of institutions (formal and informal), and offers theoretical explanations for their origins and change. Second, it introduces the basic tools of game theory, using the prisoner's dilemma to illustrate how the institutional context can determine which outcomes (equilibria) are viable. This overview of institutional analysis forms the basis of subsequent chapters that focus on how specific institutional factors—such as agenda setting, agency problems, information asymmetries, and credible commitment—affect collective action and policy outcomes.

Objectives of Chapter 4

By the end of this chapter, readers should be able to do the following:

- Recognize institutions, organizations, formal institutions, informal institutions, institutional continuity and change, and the concept of equilibrium
- Understand the relationship among types of institutions, collective action, and development outcomes
- Link concepts of political economy to real-life situations.

Institutions, Incentives, and Collective Action

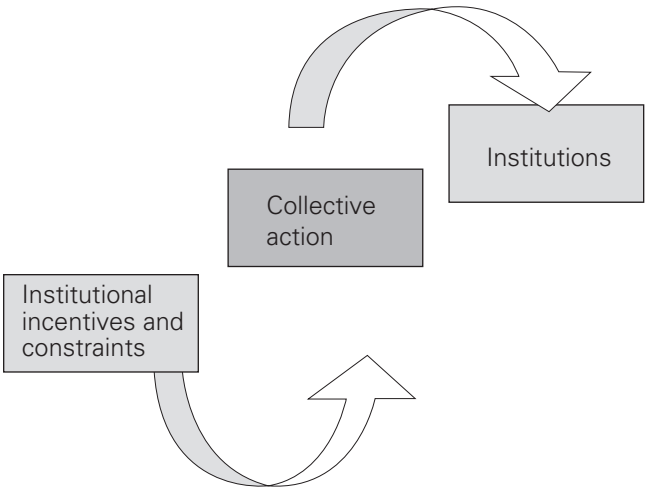
In chapter 3, we explored why cooperation between individuals and groups in society does not occur, even when the potential gains from joint effort would make everyone better off. Social dilemmas stemming from the production and maintenance of public goods impede effective mobilization for economic development. Collective action problems occur, conceptually, in a world that lacks the right rules and incentives to make everyone participate. Institutions, or rules of interaction, arise for the very purpose of solving such collective action problems. They stabilize expectations and help actors realize the gains from cooperation. Simply put, institutions give actors the incentives to cooperate rather than opt out.

Nevertheless, as we will emphatically suggest again and again, just like collective action, not all forms of *institutions* have a positive impact on development. Powerful interests with plenty of resources and networks usually cooperate very well and build well-functioning institutions or rules that work to their advantage and block challengers. In development terms, the collective action potential of some groups and the institutions channeling it do not always lead to beneficial outcomes for all and often work against the poor. This fundamental problem explains skewed policies and outcomes.

Thus, for reformers, the search for the Holy Grail becomes a search for a specific kind of joint effort: the *pro-development type of collective action* that can lead to a better institutional equilibrium. When does it occur? Are there institutions that can help mobilization succeed? Can pro-development collective action occur within unfavorable institutional boundaries? Can a group navigate key institutions to help move an agenda forward?

Institutions are the larger conceptual umbrella here, because they can exist and thrive in the absence of pro-development collective action, whereas pro-development collective action cannot exist without institutions. Politi-

FIGURE 4.2 Influence of Collective Action on Institutional Change



Source: Authors.

cal parties, civil society organizations, and protest movements need sets of rules to ensure cohesion and joint action. As the big conceptual context surrounding collective action, institutions can change dramatically, sometimes even in the absence of groups that can overcome collective action problems.

Nevertheless, this is not a one-way street. Even if the rules of the game significantly shape and confine the likelihood of pro-development mobilization, this handbook argues that successful collective action sometimes induces endogenous institutional change as well. Figure 4.2 illustrates this scenario.

To personalize this illustration, remember the 100 students who protested against the government led by emperor Bokassa in the Central African Empire (see the introduction to this volume). Their tragic fate set an example for many other potential protesters against abuses of power. In this case, brutal state repression dramatically increased the costs of direct action for similar groups or individuals who disagreed with the mandate to buy expensive school uniforms featuring a picture of the emperor. Therefore, in the vocabulary of political economy, the institution of autocracy diminished the potential for collective action by severely increasing the costs of protest.

North of the Central African Republic, many years later, a story with a similar beginning had a very different end. In the small rural town of Sidi Bouzid, on December 16, 2010, Mohamed Bouazizi, a street vendor supporting his family by selling fresh produce, was yet again (after many previous episodes) harassed by the local police who confiscated his wares because he

could not pay a bribe. When he attempted to approach the governor to make a formal complaint, he was refused an appointment. In an economy that denied him any other alternative for survival, Bouazizi set himself ablaze in protest against the state. The country where this happened is Tunisia, and this episode catalyzed waves of protest that finally led to the toppling of Ben Ali's regime and ushered in the Arab Spring. In this case, despite autocratic rules banning dissent, effective and inspiring collective action led to profound institutional change.

Understanding the incentives of actors or stakeholders to support the provision of public goods or to promote change requires taking a step back to look at the rules that generate such incentives and constraints in the first place. Critical thinking about the origins and internal mechanics of rules or institutions can shed light on the conditions under which they are likely to change, as well as on the specific roles that economic and political actors can play during the change process.

Later in the chapter, tables 4.1 and 4.2 summarize a series of classic formal and informal institutions and link them to politicians' incentives and pro-development collective action. This list is not complete by any means, nor are the conceptual links as clear-cut. Its purpose is just to summarize some findings of the literature and engage the reader in systematic thinking about the effects of rules on outcomes. Since every policy reform or attempt at change is complex, in reality many rules must interact to produce successful collective action and positive development outcomes.

Institutions generate incentives for politicians and bureaucrats to pursue—or not—development and the provision of public goods. Understanding how institutions function and the incentives they generate matters. After all, policy reform in development entails fundamental changes of core rules. To identify those institutions that can help groups act collectively and achieve positive change, the following section will describe in detail what institutions are and how they generate incentives.

What Are Institutions?

In the simplest possible conceptualization, institutions are the rules of the game. More formally, they can be defined as "rules, compliance procedures, and moral or ethical norms designed to constrain the behavior of individuals" (North 1981, 201–02.) All the components of this definition have implications for the origins, stability, and possibility of change. Please note, however, that the understanding of institutions as rules differs slightly from institutions as equilibria or norms (Crawford and Ostrom 1995). The focus on the rules of the game emphasizes an explicit sanction for noncompliance. By contrast,

conceiving of institutions as equilibria relies on the evolution of shared expectations that certain actions automatically trigger unfavorable change in other actors' responses. The concept of institutions as norms rests on the internal sense of proper and improper behavior that constrains the actions of the actors (Crawford and Ostrom 1995, 583). This normative approach refers to the obligations and duties of the participants defined in a particular cultural context and reinforced through symbols, rituals, ceremonies, and the like.

Often, in everyday vocabulary, *institutions* and *organizations* are used interchangeably. Political economy, however, commonly imposes a conceptual distinction between them (North 1990). Before we go any further, the following clarification is in order.

How Are Organizations Different from Institutions? Organizations bring together individuals or social groups with a common policy goal;[1] function according to their own rules, procedures, and culture; and seek to influence outcomes. They include political parties, bureaucratic units, firms, civil society groups, and international donor organizations, among many others. They are the players (actors or stakeholders) that interact strategically within the confines of the institutional context (North 1990).

Let us briefly explore the intersection of institutions and organizations. A trade union is an organization representing workers that tries to influence policy on such issues as wages or working conditions in a specific institutional context. In turn, the rules of the game resulting from the interaction among union, government, and employers shape the union's actual power and influence (cost of striking, the existence of closed shops, a formal policy-making role, and the like).

As suggested in chapter 3, organizations also facilitate collective action among individuals. Leaders of organizations monitor their boundaries, sanction free riding, and reward compliance. The internal institutional constraints on leadership matter very much for the organizational effectiveness of collective action. For example, if the rules governing the selection of leaders block challengers and make it harder for members to remove the incumbent, then accountability might be weak, and the "iron law of oligarchy" isolates the executive team from the rank and file (Michels 1911). At the other extreme, if the leadership is weak or rapidly changing, leaders might not be able to impose antishirking requirements on free riders. Political party discipline, strength, and cohesiveness have a lot to do with the organizational structure, leadership, and mechanisms of the parties as well as the internal accountability to members. A similar logic applies to civil society.

For a political-economy analysis, it is *also* important to assess whether organizations are monolithic or heterogeneous in their incentives, stakes, and

preferences. Often, different factions, divisions, units, and bureaus within the same organization have divergent goals and fail to act collectively.

After this clarification, we begin by mapping the institutional landscape. First, we will explore the inner logic of institutions consequential for development. Second, we look at how to recognize the main types of political-economic rules of the game and identify the incentives they produce.

Institutional Mechanics: Inside the Machinery. *Institutions as equilibria.* The concept of institutions as equilibria implies that the development outcome they produce is self-enforcing. Once the outcome is achieved, no actor or stakeholder has an incentive to try and change it, even if it is far from his or her ideal policy preference (Weingast 2002, 682).[2] The conceptual focus is on the self-enforcing logic of institutions; that is, the parties to the pact must believe three things:

- They are better off accepting the outcome rather than rejecting it.
- Each actor will change his or her behavior when the other actors do so.
- All the individual actors will defend the gains of cooperation of the other participants (that is, no participant will be excluded from the benefits accrued in equilibrium).

Here is an example of a low institutional equilibrium from which actors did not have incentives to deviate. After the end of communism, many countries in Eastern Europe and Central Asia fell into a self-reinforcing "reform trap," whereby a predatory state raised taxes and diverted revenue away from the provision of public goods to satisfy politically powerful interest groups. As a result of the perceived misallocation of resources, many entrepreneurs and households began operating in the informal economy to avoid taxation. In turn, the expansion of the informal economy led to the further spiraling decline in tax revenue and provision of public goods. In an attempt to tackle the problem, some countries transitioned to a lower tax rate meant to stimulate the growth of the formal economy and increase tax revenue. Despite these policies, governments could not alter the institutional context by adopting the rule of law and effectively and credibly guaranteeing that the collected taxes would not benefit a narrow circle of elites. Firms operating in the informal economy were thus reluctant to participate in the formal economy. An equilibrium of low tax collection, heavy tax burden, and high corruption persisted because of this institutional configuration (Aslund, Boone, and Johnson 2002).

Institutions as rules. The concept of institutions as rules presupposes a third-party enforcer that can monitor and sanction noncompliant behavior of one or more participants. Traffic rules emerged as the result of coordination

among participants and are enforced by the traffic police. This is a classic example of a rule-based institution. The absence or lack of capacity of the monitor or enforcer (that is, corrupt or inefficient police officers) alters the functioning of the institution. As the primary laws of the land, modern constitutions are the rules of the game par excellence. They arise from the strategic interaction of actors endowed with a certain distribution of power and enshrine expectations about how these arrangements will affect their power in the future. In most political systems, supreme or constitutional courts, as third-party enforcers, watch over constitutional rights and obligations. However, if the judiciary is not independent and strong, executives can interfere with its rulings, and the rules of the game are not enforced. This institutional malfunction can have detrimental consequences for development. Concepts in Practice 4.1 shows, in the case of access to basic water supplies in South Africa, how altering the rules of the game, and entrusting their enforcement to an independent third party, can provide disenfranchised groups with the institutional means for securing access to previously denied goods and services.

Institutions as norms. Institutions that have normative meaning within a specific cultural setting entail gains and costs of cooperation that are context specific. This mechanism is consistent with the previous understandings of institutions as equilibria or rules whenever the actors' stakes are clearly identifiable within a given cultural context. Norms themselves have often evolved from the strategic interaction of groups and individuals over long periods of time.

Historically, for example, tax rebellions in medieval Japan developed a leaderless pattern because the revolt leaders, if caught by authorities, were harshly punished (White 1995). Contributing to the evolution of community norms, in this case, the technology of law enforcement, created unique and enduring organizational structures and shaped the stakes of popular mobilization. Concepts in Practice 4.2 shows that cultural norms often define or constrain the sequence and protocol of actors' interactions, as well as the gains and losses derived from policy change.

As Concepts in Practice 4.2 illustrates, it is important for development analysts and practitioners to understand the specific normative meanings, dimensions, and gains or losses attached to policy reform by various stakeholder groups.

Formal and Informal Institutions

A useful typology differentiates between formal institutions (those that exist in law or statute) and informal institutions (those without written rules or

CONCEPTS IN PRACTICE 4.1

Constitutions and Individual Rights to Public Goods—Water Access and Health Care

Some constitutions around the world, attempting to redress severe and long-standing inequalities of access, have sought to grant all citizens basic rights to public services. South Africa, for instance, has a very high demand for water but the fifth-lowest water availability among the 41 Sub-Saharan African nations. Under these conditions of extreme resource scarcity, the apartheid regime concentrated the right of access in the hands of the white minority, which represented 13 percent of the population and used around 95 percent of the available water for agricultural irrigation on large farms. According to estimates, in the early 1990s, about 15.2 million South Africans did not have access to a basic water supply, and 20.5 million lacked access to basic sanitation (Mehta and Ntshona 2004, 4).

The postapartheid era made access to water and sanitation a policy priority, and the government instituted a policy that committed to providing universal access to a basic supply of safe water for all households. Thus, South Africa became the only country in the world that *constitutionally* guaranteed the right to basic drinking water and water for sanitation. Resetting the rules of the game and inscribing them in the constitution meant that poor citizens could take the local or national government to the Constitutional Court as the third-party enforcer if it reneged on this obligation. Indeed, the mere existence of legal grounds led many inhabitants of shantytowns to demand government accountability. In 2000, for example, residents of Wallacedene—one of the poorest settlements of Capetown—won their class action suit in the Constitutional Court on grounds of the right to proper housing facilities. Similarly, in 2009, 5,000 poor inhabitants of Phiri, Soweto, made legal history as the first test case of the constitutional right to free water. The claimants won the case in the Supreme Court of Appeal but lost in the Constitutional Court (Danchin 2010).

Similarly, over the past 20 years, India, South Africa, and many countries in Latin America have begun guaranteeing the constitutional right to health care. This expansion of rights has translated into a wave of individual and class action litigation, as citizens have been able to demand that the public sector provide and cover the costs of specific medications and services. Despite the fact that the jury is still out on the fiscal and equity implications of health care litigation, citizens have often managed to demand the compliance of the executive with the rules of the game. In some cases, these formal rules enforced by the judiciary as an independent third party have led to dramatic and undeniable changes: universal lifetime access to basic HIV medication in India, increased health care coverage and benefits for all workers operating in the informal sector in Colombia, and preventing mother-to-child HIV transmission for the entire population of South Africa.

Sources: Mehta and Ntshona (2004); Danchin (2010); Yamin and Gloppen (2011).

formal structures that still determine outcomes). On the one hand, formal institutions such as constitutions and international treaties are drafted, debated, and voted upon during a long process through which all key actors set and clarify contractual expectations and ensure that the agreement they

CONCEPTS IN PRACTICE 4.2

Water Resource Management Reforms in Zimbabwe

In the late 1990s, several countries in southern Africa created decentralized water management institutions to increase the efficiency of water use and stimulate broader popular participation in resource management. Zimbabwe passed a water act in 1998 and began implementation two years later. This law promoted a new institutional configuration under the guise of integrated water management at the catchment level. Following technical trends in the international water management community, this institutional shift profoundly altered the way in which resources were managed and paid for in the localities. The former Water Resource Department became the Zimbabwe National Water Authority. Following the policy recommendations of the IMF Structural Adjustment Program, this new bureaucratic unit was supposed to operate along commercial lines and generate its own resources through user-fee collection for access to water.

Imposing such fees on consumption in rural areas often conflicted directly with local customs. For example, according to an analysis of the implementation of the reform, water is a God-given good for the Ndau community in Zimbabwe and is at the center of religious worship and ancestral beliefs. The owners of the water are the spirits of the ancestors, whereas the custodians are the tribal chiefs. Ndau beliefs about water access, ownership, and user fees were at odds with the new law and the central state's definition of resource ownership. Similarly, in several communal areas of Zimbabwe, traditional definitions of *community* (as settlements extending along entire rivers) directly contradicted the prescriptions imposed by the new law. As a result, significant numbers of users did not pay the fees the state expected to collect for water consumption.

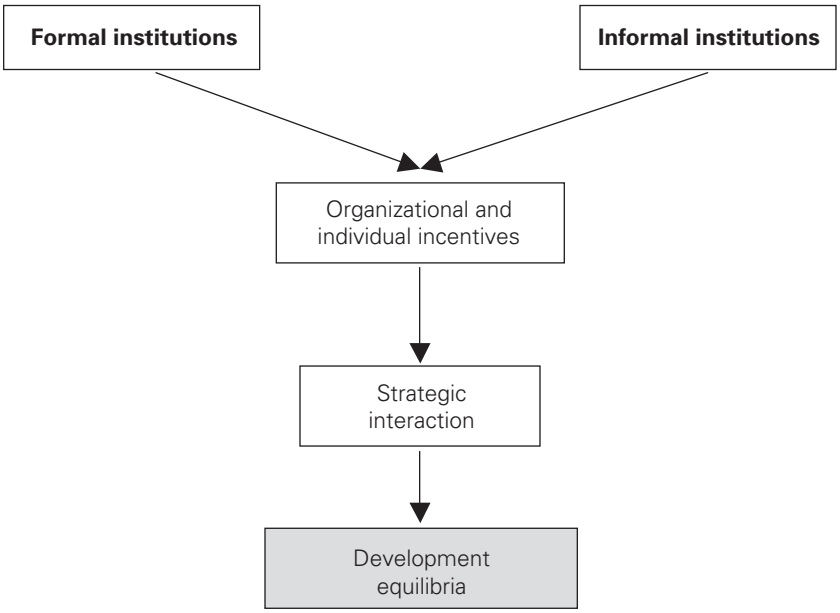
In both instances, the preexisting rules of actors' interaction and the informal authorities that governed water consumption conflicted directly with state policy and undermined formal institutional change. By not engaging with local actors to understand the real stakes and rules of the community, reformers failed to anticipate the negative consequences of their policy.

Source: Nicol and Mtisi (2003).

reach will be binding. On the other hand, informal institutions—such as gender roles, family obligations, manners, and rules of appropriate behavior within a particular ethnic or faith-based group—may or may not be codified or written. Nonetheless, they produce strong compliance, sometimes even more so than written rules.

Why should we care about the complete institutional landscape of policy reform? Political economy brings politicians and political processes explicitly into development equations. The mechanisms or the rules through which political representatives are selected, monitored, and sanctioned generate individual or organizational incentives to provide public goods, engage in collective action, and shift (or not) development equilibria. These formal

FIGURE 4.3 The Intersection of Formal and Informal Institutions



Source: Authors.

rules of selection often interact with the less visible territory of tacit expectations and lock in final outcomes. Understanding this intersection allows decision makers to correctly identify the feasible space for change, and avoid policy mistakes that harm more than help development. In the case of water management policy in Zimbabwe, for example, reformers ignored the informal rules of interaction at the local level, while expecting the formal rules designed by the central government in Harare to be fully enforced and to improve water management. Not taking into account informal institutions led to skewed incentives and outcomes: detrimental redefinition of traditional community boundaries and widespread noncompliance with the new policy.

Political-economy analysis should therefore take into account both categories and focus on the intersection of formal and informal institutions (as shown in figure 4.3).

Formal Institutions. Most recognizable institutions of modern states—such as the form of government, the electoral system, and the arrangements ensuring political checks and balances—fall into the category of formal institutions. They are written or codified rules of behavior for all social,

economic, and political actors. These sets of rules are sometimes called "parchment" institutions to denote their legalistic and codified character (Carey 2000).

But how effective are the rules or laws on paper in shaping economic, political, and social behavior? Especially in the case of the developing world, it has been widely recognized that not all written rules effectively govern behavior and that many effective individual incentives derive from tacit, unwritten rules (Carey 2000, 737). For example, the vast majority of countries have some sort of legislature with elected representatives who have a mandate given by their constituencies to enact legislation. However, some assemblies are merely "window dressing" forums that fulfill various purposes other than democratic representation. They can serve, for instance, as platforms through which powerful executive or hegemonic parties identify and co-opt political challengers. Similarly, in spite of relatively clear rules for the selection of the executive inscribed in constitutions, leaders often circumvent the legal constraints of their mandate. Instead, the real rules of access to power and allocation of scarce resources might reside in a narrow elite organized around the executive or the military, or they might entail mechanisms inherited from ethnic, kinship, or faith-based cleavages. By the same token, if the formal rules of representative democracy are weakly institutionalized and robust checks and balances on power are missing, executives have the space to abuse their mandate, build clientelistic voting networks, and consolidate a hard-to-defeat incumbency advantage.

Here are some examples of classic formal rules associated with the political process that have been found to generate incentives regarding the provision of public goods and collective action for reform:

- Political regime types (for instance, democracy versus authoritarianism)
- Federalism and decentralization
- Presidential versus parliamentary systems
- Bicameral versus unicameral legislature
- Executive-judiciary relations
- Electoral laws such as *proportional representation* (PR) (voting rules through which political candidates run for election on party lists and in which the number of votes received translates into the number of seats in the legislature) or *single-member district plurality vote* for candidate selection ("winner-take-all" systems in which only the candidate who wins the most votes at the constituency level gets elected).

Table 4.1 links these institutions to political incentives for pro-development collective action.

TABLE 4.1 Political Incentives for Development and Collective Action Opportunities Induced by Formal Institutions

Formal institutions	Political incentives for provision of public goods.	Pro-development collective action: opportunities and constraints.
Regime type		
Democracy	Elections provide accountability mechanisms.	Political parties, interest groups, and social movements are allowed.
Autocracy	Less or no direct accountability; repression; potential existence of alternative mechanisms of institutional checks and balances in some states.	Difficult for groups to pursue development agendas if they are not aligned with the priorities of political leadership.
Hybrid regimes	Partial accountability relations.	Some reforms can be pursued; "approved" parties are allowed to function, as long as they do not threaten the core distributive logic of the regime.
Federalism		
Federations or decentralized systems	Regional interests are well represented; regional and local governments might overspend and engage in common-pool resource dilemmas; in some cases, if accountability is less clear, decentralization creates opportunities for corruption.	Political party cohesion and discipline might be lower since politicians have incentives to satisfy regional governors and not national party leaders; implementing policies could entail cooperation from both the center and subnational units, making cooperation more costly.
Unitary or centralized systems	National-level institutions shape political incentives.	Some parties might be more cohesive; national-level trade unions and business lobbies can pursue agendas more effectively than in decentralized systems; likely to act against decentralization reforms, for example.
Executive-legislative relations		
Parliamentary system	Incentives for common-pool resource behavior in the budget process to satisfy individual constituencies; independent parliamentary behavior versus party discipline might depend on the type of coalition necessary for cabinet formation.	Collective action for lasting policy changes might depend on the relationship between the cabinet (minority versus majority) and legislature, cabinet duration, etc.; cabinet minority in some cases has induced lower party discipline.
Presidential system	Strong presidential powers; ability to use decrees; control of the budget process.	Collective action is contingent on the political relation between the head of state and legislature: if from the same party and high party discipline, effective reform; if not, potential policy stalemate.

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TABLE 4.1 *continued*

Formal institutions	Political incentives for provision of public goods.	Pro-development collective action: opportunities and constraints.
Type of legislature		
Unicameral legislature		Smaller coalitions necessary to pass reforms.
Bicameral legislature	Sometimes it allows greater representation of regional or occupational interests that balance out purely political incentives; traditionally designed to balance out the liberal popular chamber with a conservative counterpart (like the United Kingdom).	It increases the size of the coalitions and time required to pass pro-development laws; potential policy stalemate if ideologically divergent chambers.
Executive-judiciary relations	The degree of judiciary independence might give incentives to the judiciary to behave strategically and preempt conflicts with the executive.	Without judicial independence, collective action of groups trying to challenge executive decisions is reduced.
Constitutional review rules		
Approval by ordinary majority		Collective action for major changes or amendments of the constitution becomes easier.
Approval by supermajority		More difficult to acquire the necessary majority for change.
Electoral rules		
Single-member plurality	It creates incentives for politicians to pursue personalized constituency service (pork barrel politics; in some cases, clientelistic exchanges); some studies argue that it reduces corruption because it strengthens personal accountability.[a]	First-past-the-post systems are likely to have a lower number of parties (usually two major parties) but are less disciplined.
Proportional representation	Since politicians are elected based on party lists, it might decrease direct accountability to voters; it allows greater representation and a higher number of parties.	Coalitions and policy trade-offs are common; collective action for reform depends on party discipline, coalition size. In some cases, PR coalitions are fragile because of the high number of parties and policy divergence.
Closed-list proportional representation (party leaders decide on the order of candidates on the ballot)	Politicians have to cater to party leaders rather than local constituencies.	Less accountability to voters (some studies argue that they produce higher corruption levels), but also likely to increase party discipline for pushing reforms through.

TABLE 4.1 *continued*

Formal institutions	Political incentives for provision of public goods.	Pro-development collective action: opportunities and constraints.
Open-list proportional representation (Voters have a say in terms of deciding the order in which candidates appear on the ballot)	More direct accountability as voters decide on the rank of candidate nomination.	This electoral rule generates a mix of accountability to voters and national party leaders. Its effects on collective action opportunities and party discipline might be contingent on other factors.
Districting rules		
District magnitude	The smaller the district, the higher the candidate competition for a representative seat.	It might personalize constituency benefits (pork barrel, clientelistic handouts) and reduce party cohesion at the national scale.
Overlap between local and national electoral districts	Might create incentives for or against decentralization.	If districts overlap, then legislators might fear that the mayors or governors of decentralized units would want to undermine their interests;[b] they might resist or oppose fiscal decentralization.
Cabinet formation/ Coalition type		
Concentration of executive power (minority cabinets or minimum winning coalition)	Either a minimal winning coalition or an undersized coalition forms the cabinet.	The collective action effect related to policy reform depends on the support of the legislature for the cabinet (low for undersized cabinets, higher for minimal winning); the minimal winning coalition cabinets could entail less policy concessions than oversized coalitions.
Sharing of executive power (oversized cabinets)	More parties than necessary form the government.	Potential coalition fragility, factionalism, policy trade-off.
Interest group system		
Pluralism	No major interest group coordination; labor, business, and government do not meet regularly to set wages, etc.	Many small organizations, no umbrella associations (i.e., business associations, large labor unions, no tripartite agreement), less influence in policy and reform.
Corporatism	Involves the incorporation of coordinated interest groups in policy formation (labor, business); some studies found better macroeconomic performance, others debate findings.[c]	The collective action potential of these interest groups to promote or block policies is very high (usually peak umbrella associations, large, few in numbers at the national level).

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TABLE 4.1 *continued*

Formal institutions	Political incentives for provision of public goods.	Pro-development collective action: opportunities and constraints.
Political party systems		
Two-party systems	Politicians appeal with policies to satisfy the median voter.	Produce single-party cabinets that are more stable than coalition governments and, according to some, more effective for policy making.[d]
Multiparty systems	Better representation of the preferences of a diverse electorate.	Generate coalition governments that are often fragile and nondurable.
Party discipline and cohesion	Organizational incentives to comply or not comply with national party leaders and policies.	Strong party discipline can effectively block or promote pro-development reforms.
Intraparty selection rules and competition	Some studies argue that intense intraparty competition might lead to clientelism.[e]	Collective action for public good provision through parties might be hampered by intraparty factionalism.

Source: Authors; selected examples of formal institutions in democracies come from Lijphart 1999.
a. Persson and Tabellini (2005).
b. Eaton, Kaiser, and Smoke (2010).
c. Lijphart (1999).
d. Lijphart (1999).
e. Carey and Shugart (1995); Golden and Chang (2001).

Sometimes, even small changes within the same family of formal institutions (for example, the rules governing the election of political candidates) can lead to different outcomes related to the provision of public goods. Concepts in Practice 4.3 illustrates the effects of variations of electoral laws on the provision of public goods and economic reform in Brazil and República Bolivariana de Venezuela. As we will see, there is no easy answer, recipe, or immediate causality, as the effect of such rules is often complex. Therefore, mapping the web of core institutions governing the policy domain of interest allows reformers to identify the real origin or locus of skewed incentives, come up with correct diagnostics, and design feasible strategies of action.

Written, codified institutions often interact with unwritten, less formalized shared expectations of behavior among actors or stakeholders. These normative templates are called informal institutions. Development outcomes are in many cases the products of such interaction. Ignoring what lies behind the immediately visible landscape, as well as the real power relations underpinning and sustaining formal rules, and attempting to export blueprints of formal institutions on grounds that they functioned elsewhere can lead to either ineffective or detrimental outcomes. To paraphrase Luiz Carlos Bresser Pereira, a former Brazilian minister, "Institutions can be at most imported, never exported" (Przeworski 2004, 540).

CONCEPTS IN PRACTICE 4.3

Effects of Electoral Laws on Public Goods in Brazil and República Bolivariana de Venezuela

Proportional representation is a voting method commonly used for national and local elections in which the number of votes won by a political party translates into a proportional number of seats in legislatures. For example, if a party wins 20 percent of votes nationally, it obtains roughly 20 percent of the seats in the parliament. The procedure through which political parties list candidates for elections and decide on their order on the ballot is also consequential for the final result.

The "open-list" proportional representation rules give voters direct influence over the order in which political candidates appear on the ballot, as they can alter the ranking of candidates on party lists (individual mandate). In contrast, in "closed-list" PR systems, party leaders, not voters, decide on the order.

How do these rules affect the provision of public goods? In Brazil, for example, open-list PR led to the creation of pockets of voters supporting individual candidates who offered either "pork" (narrowly targeted private goods to a specific constituency) or bribes for votes delivered en masse by local party bosses. These incentives led to very weak parties, individualistic deputies, and strong municipal party bosses. Thus, because of the fragmentation, weakness, and lack of cohesion in the party system, the incumbent president always needed governing coalitions that were hard to obtain and stabilize in order to pursue reform agendas. This volatility of reform coalitions at the center subsequently translated into increased corruption, pork barrel politics at the district level, and reform deadlock (Ames 1999, 2001).

In República Bolivariana de Venezuela, in contrast, a closed-list system of proportional representation has been singled out as one of the factors leading to reform deadlock (Crisp 2000). In 1984, falling oil prices, large foreign debt, and declining real wages led to a crisis in a country previously commended for its stability and growth. The government, led by Jaime Lusinchi in collaboration with a small group of bureaucrats and a few interest groups, was in charge of navigating the necessary package of reforms. In the process, the executive immediately started to rule by decree, structured and dominated the legislative agenda, and consolidated unprecedented power. However, despite this wide-ranging political mandate, no significant reforms were undertaken. On the contrary, several policies solidified the vested interests of powerful groups to the detriment of diffuse groups of citizens.

How can this puzzle be explained in a democratic polity in which a vibrant legislature and an anxious public could have prevented the reform deadlock? Part of the explanation lies in the closed-list proportional representation rule (surviving until 1993) that made political candidates dependent on the central leadership of the party for their selection, not directly on voters. This institution created individual incentives for high party discipline, no opposition majority, and, overall, an ineffective congress unable to challenge a powerful president and interest groups. In the absence of a vocal civil society, reform was stalled.

Informal Institutions. Informal institutions are social norms, conventions, or context-specific prescriptive templates of behavior. Unlike formal rules, they are usually unwritten and function outside official channels (Helmke and Levitsky 2006). Formal institutions, because of their legalistic

and codified nature, are relatively easy to identify. Constitutions, laws, decrees, organizational charts, and electoral laws stipulate rights, responsibilities, future contingencies, and the monitoring technology that ensures compliance.

Tacit, informal rules or norms are sometimes trickier to pin down and analyze. Here are several rules of thumbs with respect to how to (or not to) identify them (Helmke and Levitsky 2006, 6–10):

- Informal institutions entail *shared* social expectations of behavior, as well as some form of external punishment for noncompliance.
- Not all unwritten behavioral patterns are informal institutions. For example, if bureaucratic corruption is tolerated or even encouraged by central state authorities and if there is an underlying expectation or tacit norm in the wider public sector community that bribes should be extracted, corruption becomes the informal rule of the game. If, however, bureaucrats solicit bribes in response to low public sector salaries, corruption is just a behavior triggered by the lack of adequate incentives.
- Informal institutions are often conflated with cultural values and informal organizations that have usually been overlooked by Western-centric institutional analyses (for example, tribes and clans). However, caution is needed in identifying and analyzing them. Sometimes, even if the *informal organization* (say, a particular ethnic tribe, for example) is a stakeholder in a reform process, it does not mean that the shared expectations *within* the group automatically shape the policy stakes and affect the broader process of policy change. If, nevertheless, the reform stakes assessed by this group are derived from common expectations of costs and benefits, the informal institutions are at work. As the example related to water management reforms in Zimbabwe showed, the informal institutions of the Ndau ethnic group that normatively defined concepts of ownership and property rights related to water had a direct impact on policy implementation. The mere incorporation of the same ethnic group in the list of local stakeholders for another policy (say, decentralization reforms) for which the group does not have a priori shared expectations, however, does not qualify as an informal institution.
- Some institutions that might be perceived as informal by the analysts are in reality highly formalized. Many African countries have created constitutional structures and responsibilities for traditional authorities (customary councils, chieftaincy committees, and the like) for different purposes: the unification of customary laws across regions, compiling and registering lines and succession of authority, coordinating customary policies with the regulatory framework of the central or local govern-

ments, institutionalizing patronage networks, and so forth. In Yemen, for example, the political survival of the incumbent party and the president traditionally depended on alliances with key tribal leaders. The Department of Tribal Affairs, a bureaucratic agency, pays stipends to 5,000 tribal sheikhs all across the country. In addition to this formal recognition, a parallel network awards government jobs to either family members or close allies of tribal leaders (Egel 2010; ARD 2006).

Similarly, in the 1990s, several Latin American countries codified and formalized indigenous laws to achieve better compliance with national policies. Treating them as informal ignores an entire political process of codification, formalization, and official recognition of these rules by the central state.

Strong informal rules of behavior can either undermine or dominate formal institutions. The interaction between the two types of rules of the game often explains development outcomes, as well as the success or failure of policy reform.

Sometimes, by eroding or circumventing written rules, conflicts between informal rules of behavior and formal institutions can have negative effects and block change. For example, even if the legal framework gives women equal rights (such as the right to vote or participate in the labor market), patriarchal, societal, ethnic, or family norms can de facto provide disincentives for acting on such rights (social stigma, exclusion, or physical punishment). In some cases, top-down reforms aiming to replace traditional institutions that regulate behavior with formal rules derived from "best practices" end up being either ineffective or counterproductive.

Informal institutions can also play a positive role by providing strong rules and mechanisms of accountability in cases where formal institutions are weak or missing. In China, for example, despite the lack of development funds in the villages and the absence of democratic mechanisms of accountability, some rural units perform better than others in delivering public goods. The cause of such variation in development outcomes lies in strong unofficial rules and norms that effectively stabilize expectations of actors. Villages with solidary social groups, such as temples or villagewide lineages (clans), typically provide more public goods. Concepts in Practice 4.4 considers some of the factors that led to this puzzling variation in development across rural localities.

Given that institutional weakness characterizes many developing countries (Bardhan 2002), the relevance of informal institutions and of their interaction with the formal rules of the game is essential for development policies and reforms.

CONCEPTS IN PRACTICE 4.4

Informal Institutions in China

A study conducted in four rural provinces in China that surveyed 316 villages showed that development funds rarely reach the villages since counties and townships prefer to invest their resources in infrastructure projects that connect localities rather than providing public goods inside the villages. Village governments are nevertheless responsible for irrigation, garbage collection, road maintenance, and primary education, with very few financial resources at their disposal. Despite resource scarcity across the board, the production and maintenance of public goods vary significantly in these rural localities. What explains this divergence in development outcomes? The study found that informal institutions—specifically, village solidary groups such as temples or clans—lead to superior delivery and maintenance of public goods.

For these informal institutions to provide incentives to village officials to perform, they have to meet two criteria: (1) they need to be encompassing, meaning that they must apply to everyone under the village jurisdiction; and (2) they need to include the officials as members. According to this argument, if officials and group members share a similar code of moral conduct and ethical obligations, their incentives are more likely to be aligned, with positive consequences for development. These informal codes of duties and responsibilities can derive from many sources: for example, similar religious beliefs (in the case of village temples) and family- or kin-related codified behavior (in the case of clans). Interestingly, in the Chinese context, the variation in development outcomes seems to be best explained by the joint effect of the two criteria. While village temples cover all the inhabitants of the village, including the officials responsible for public goods, village churches are encompassing but not embedded: they provide social services to a large segment of the village population but rarely include officials since they are nonindigenous institutions. In contrast, subvillage lineages, by definition, do not encompass the entire village population, although they might include the locality official. According to the study, village temples and villagewide lineages that are *simultaneously* encompassing and embedding score higher in governance indicators than villages featuring informal institutions that lack one of the two criteria (sublineages that include just a segment of the population or village churches). The findings demonstrate that, in certain contexts, informal mechanisms of accountability can lead to better development outcomes even in the absence of formal electoral alternatives.

Source: Tsai (2007).

Although understanding the political-economy environment surrounding reform—especially the configurations of informal and formal institutions—is challenging, it is crucial for a successful outcome. Following are some examples of informal institutions relevant in many parts of the world (Helmke and Levitsky 2006, 276–280):

- Political clientelism or patronage
- Informal rules of bureaucratic meritocracy (Singapore has the same postcolonial bureaucratic legacies as the Philippines and Indonesia but has unspoken norms of strong meritocracy)

- Unwritten norms of bureaucratic coordination between agencies
- Informal rules of interaction between bureaucrats and private sector companies that participate in public procurement processes (for example, Amakudari or "descent from heaven" practices in Japan, whereby retiring civil servants obtain lucrative jobs in companies for which they secured public contracts in the past)
- Blackmail and regulatory uncertainty (Kuchma in Ukraine, Fujimori in Peru)
- Informal interparty or executive-legislative consultations.

For a brief summary of the incentives provided by informal institutions and their impact on collective action for development, see table 4.2.

Sometimes, the causal effect of formal or informal institutions on development outcomes can be more complex than initially thought. Unintended consequences or specific interactions of many institutional layers skew the original goals. Concepts in Practice 4.5 presents an example of such unintended consequences in the case of regulations governing labor relations and the development outcomes they generated in Indian states.

Institutional Origins, Stability, and Change

Why Do Institutions Exist?

Generally two major explanatory frameworks seek to account for the origins and evolution of institutions: demand-side and supply-side approaches. Demand-side approaches tend to emphasize that institutions are designed to help (some or all) stakeholders enhance their ability to alleviate collective action problems: "Institutions arise in part to help create the conditions for self-enforcing cooperation in an environment where there are gains from cooperation but also incentive problems that hinder a community's ability to maintain cooperation" (Weingast 2002, 674).[3] Thus, for example, compulsory trade union memberships (closed-shop agreements) were established so that individual workers could not free ride on the efforts of a union to secure better working conditions for all workers in a factory.

Supply-side approaches tend to emphasize how the unintended consequences of institutions may alter the relative power of stakeholders in unforeseen ways and independently of the original raison d'être on which the institution was founded. For example, closed-shop agreements, by providing a union with significant power to disrupt production in an industry, could enable it to make political demands that have nothing directly to do with ensuring that workers' salaries or working conditions meet certain stan-

TABLE 4.2 Incentives of Informal Institutions and Their Impact on Collective Action for Development

Informal institution	Political incentives to provide public goods	Pro-development collective action: opportunities and constraints
Political clientelism/ patronage	It generates incentives for politicians and parties to cultivate personalized relations with local notables, intermediaries, organizations for distribution of clientelistic handouts, and vote monitoring.	Clientelism and political machines are very effective with respect to vote turnout and collective action since they mobilize large numbers of voters; they also commonly undermine programmatic policies and public good provision.
Unwritten norms of bureaucratic coordination	They give incentives for cooperation across agencies, irrespective of political affiliation.	Facilitate bureaucratic collective action at the policy formulation and implementation stage.
Regulatory uncertainty	In some environments, it creates incentives for corruption and self-refraining of opposition members from challenging the executive.	The fear and anticipation of arbitrary implementation of laws and regulations (for example, discretionary tax collection or inspections) reduce the collective action potential of opposition to the executive.
Rules of career advancement in bureaucracy and engagement with the private sector (for example, the Japanese Amakudari or "descent from heaven" system)	They give incentives for collusion between bureaucrats and private companies.	According to studies, they reduce the general level of oversight and increase risk taking from companies; they can hamper pro-development collective action.
Informal rules of interparty consultation	Informal consultation forums or caucuses across party lines might increase incentives for policy cooperation; create incentives for accountability (programmatic or clientelistic) to voters for individual politicians.	Facilitate bipartisan coalition formation and consolidation; prevent conflicts; it might entail policy trade-offs.
Clans, lineages, ethnic faith-based group norms	Give incentives to politicians, voters, and bureaucrats to stick together.	These norms are usually very effective at solving in-group collective action problems; high ethnic fractionalization or in-group/out-group competition for scarce resources reduces the potential for collective action, and, according to some studies, leads to public good underprovision.[a]

Source: Authors.
a. Alesina, Baqir, and Easterly (1999).

CONCEPTS IN PRACTICE 4.5

Labor Regulations in India

The relatively low rate of manufacturing growth in India stands in stark contrast to the manufacturing growth of neighboring East Asian states, as well as to India's own service and information technology industries. What explains this relatively poor performance? The role of formal institutions and how they affect the business environment could be one plausible, although by no means the only, factor, which may help explain part of this empirical puzzle. Many of the laws and regulations governing industry in India are set at the center and apply to all the states (the cornerstone legislation being the Regulation and Development Act of 1951). However, the regulation of industrial relations is a concurrent issue in which both the central and the state governments have the ability to "change the rules of the game" by altering legislation. Thus, while in 1947 virtually all Indian states had the same regulatory framework for industrial relations (governed by the Industrial Disputes Act of 1947), over time each state was able to change this act, in every jurisdiction.

In short, while all Indian states began with the same legal-institutional framework, by tracking the state-level reforms of the 1947 act over a period of 35 years, we can examine how those changes in the formal legal rules of the game affected final outcomes (economic growth, formal employment, and poverty rate). By coding whether each reform of the 1947 act, at the state level, was pro-employer, neutral, or pro-employee, the authors of this study were able to identify whether marginal changes in the formal regulatory environment had a significant effect on development outcomes. The authors found that pro-worker amendments were associated with reduced output, reduced formal employment, less investment, lower productivity, increased employment in the informal economy, and higher urban poverty rates. Thus, changing the rules of the game in a legally "pro-worker" way had the perverse effect of reducing the opportunities for formal employment and the betterment of living conditions.

Source: Besley and Burgess (2002).

dards. Thus, unions may lobby for subsidies to declining industries or for perpetuating jobs and benefits at the expense of the taxpayer (see, for example, North 1990 or Hayek 1962).

Irrespective of their genesis, for institutions to survive they must reach a self-enforcing equilibrium.[4] As already suggested, this means that the actors should be better off by obeying the rules, that they should change their behavior in response to other parties doing so, and that they will effectively counter attempts or political transgressions to change the rules of the game.

When Do Institutional Equilibria Change?

Self-enforcing institutions embed and lock in context: power discrepancies among social groups, economic development, state capacity, and many other background conditions (North 1981, 18–50; 1990). Therefore, the prospects

for profound change are likely to be shaped by significant shifts in the following factors:

- Power endowments of major actors
- Demography
- Technology
- Property rights
- Global economic production, distribution, and exchange
- International and domestic political competition
- Ideology.

Change in Power Endowments of Actors. Institutions formalize and preserve preexisting power configurations; they reflect the underpinning balance of power between political groups in society. Historically, institutions (especially INSTITUTIONS, or the core societal rules of interaction) developed around certain power configurations and were created to preserve those power discrepancies.[5] Because these rules simultaneously shape collective action and development outcomes, changing them is always challenging and often impossible.

Here is an eloquent metaphor that captures the difficulty of major institutional change. In an influential article pondering the causal link between institutions and development outcomes, the author draws a comparison that all sport fans can relate to, and poses the following conundrum. Let's say that two teams play basketball (or any other sport for that matter), but one of them has a significant height advantage over the other team. The rules of the game and the referees—as third-party enforcers—are designed to be impartial. The conceptual problem here, the analyst argues, is that *independently* of all institutional guarantees designed to insure objectivity, the taller team is still more likely to win. It also follows, according to this line of argument, that the rules that would bring the game closer to fairness, for example lowering the basket, will not change in a world in which the taller or more powerful players make the rules, precisely because their team derives advantages from the status-quo (Przeworski 2004, 529). Therefore, major institutional change occurs only when the underlying balance of power changes.

One example of such institutional shifts comes from the historical evolution of succession and inheritance rules and provides an interesting illustration. Throughout the Middle Ages, primogeniture (or the right of succession granted exclusively to the first-born son) coexisted with a single-income source available to the household (usually land assets). Progressively, as the income alternatives diversified (the rise of industry, manufacturing, and the like), the bargaining power of the other siblings in-

creased and ultimately succeeded in establishing more equal rules of succession and property division. Historians have shown that the main explanation behind equality-versus-first born favoritism inheritance rules in the 19th century was the availability of multiple sources of income for household members (Knight 1992, 169).

In more contemporary settings, transitions from autocracy to democracy occur when the nondemocratic coalition revolving around the political leader (that is, the military, one-party regime elites, powerful bureaucrats or notables, and broad societal groups that support the nondemocratic regime) fear defeat or replacement, have depleted the resources that bought political support, or have lost an open conflict with contenders.

Lower-case institutions also change when the power endowments of major actors in society shift. South Africa, for example, pursued a comprehensive decentralization policy at the beginning of the 1990s. Anticipating electoral defeat by the transition incumbent (the African National Congress, or ANC), the two establishment parties (the National Party dominant in the Eastern Cape Province and the Inkatha Party with a strong support base in Kwa Zulu Natal) pushed for enhanced fiscal and decision power in the regions to try to preserve some political gains, despite the loss at the national level. The ANC accepted the plan within the context of the transition pact. Years later, when the party consolidated, it withdrew support from decentralization to weaken the opposition parties in the provinces and internal party rivals. The government dramatically reduced the number of local governments, from nearly 900 to 238, in a process of amalgamation officially justified as a bureaucratic measure meant to address the precarious capacity problems of local governments. As some analysts pointed out, the policy marked a reassertion of centralized control underneath an administrative guise (Eaton, Kaiser, and Smoke 2010, 54).

Understanding institutional change as such has policy implications for reformers because it reveals the limits and perils of institutional engineering. If the underlying power relations are essential for equilibria, then just adopting or importing formal institutions that worked elsewhere can either fail to produce any results or do more harm than good.

Demographic Change. Increases or decreases in population or changes in the demographic structure alter economic demand and production capabilities and create potential for changing the previously prevailing rules of distribution. For example, gender-friendly policy reforms in postgenocide Rwanda illustrate how institutions changed to reflect shifting demographics (Powley 2005). In October 2003, Rwanda found itself with the most gender-balanced legislature in the world, with women holding 48.8 percent of the seats. Prior

to the civil war and genocide of the mid-1990s, they had never held more than 16 percent of the seats in the legislature. This puzzling reversal was partially caused by the massive demographic change triggered by the ethnic conflict that claimed over 800,000 lives. In the immediate aftermath of the genocide, the entire population was 70 percent female (women and girls).

To this day, the legacy of gender imbalance persists. In a postconflict situation in which women survived their husbands and sons, they had to acquire new skills rapidly and assume new gender roles. Into the organizational vacuum, multiethnic women from nongovernmental organizations (NGOs) such as Pro-Femmes stepped in, advocated for ethnic reconciliation, and advised the government on gender-friendly policies. The inclusive, reconciliatory, and gender-sensitive constitution adopted in the postconflict period, coupled with the role of women NGOs in fostering national reconciliation, was critical in raising the political profile of prospective female politicians. The greater formal representation of women resulted in the formation of a women's caucus and the passage of legislation that sought to promote women's issues, including the right of women to inherit land (1999), which had previously been prohibited. Thus, while Rwanda faced many developmental and political challenges, the change in the demographic composition of the broader population, as well as of the legislature, still had a clear and visible effect on policy-making priorities.

Technological Change. The introduction of new technology increases efficiency, productivity, and power, thereby altering the relative costs of advocating for a new structure of redistribution. For example, with the increased ability of developing countries to use electronic transfers to send benefits to recipients rather than going through bureaucratic intermediaries, the discretionary power and potential for corruption of the public sector apparatus may be reduced. Over the past 10 years, the Internet and social media (such as Facebook and Twitter) have radically transformed social movements, popular protests, and political party appeals and fundraising and have thus facilitated collective action and empowered marginalized groups of citizens.

Change in Property Rights. Property rights are, broadly speaking, rules "defining ownership, use, rights of income and alienability of resources and assets as expressed in laws and regulations" (North 2005, 57). They emerge as a result of an ongoing negotiation between the rulers of a state and its constituents and specify the duties and obligations of the ruler with respect to the assets (land, labor, capital) of individuals and companies. Changes in the specification or enforcement of the system of property rights can trigger institutional change.

Changes in Global Production, Distribution, and Prices. For Nobel Prize–winning economist Douglas North, changes in tastes and in the ratio of the prices of the factors of production are the most important drivers of incremental institutional change. In medieval Europe, for example, the plague caused dramatic changes in the land-labor ratio and triggered an important resetting of political and economic rules. Similarly, changes in the relative prices of work, leisure, and contraception have modified the structure of the family unit and have altered behavior (North 1990, 84).

Shifts in Domestic and International Political Competition. The intensity and robustness of political competition will limit the monopoly power of the state. Shifts in either international or domestic competition can trigger institutional change (North 1990).

According to increasing evidence in many developing countries, greater political competition has led to the creation of independent regulatory agencies, oversight institutions, civil service reforms, and ombudsmen (Geddes 1994; Grzymala-Busse 2006; O'Dwyer 2006). If political parties are uncertain about their electoral future when taking office, the argument goes, they have incentives to build in oversight institutions and public bureaucracies that will not punish them if they lose elections.

Following the transition from communism, some Eastern European countries (Estonia, Hungary, Lithuania, Poland, and Slovenia) adopted relatively fast civil service reforms and established independent supreme audit institutions or public procurement agencies. Others (Bulgaria, the Czech Republic, Latvia, and Slovakia) took almost 10 years to initiate a similar process of institution building. Paradoxically, some of the laggard state reformers like the Czech Republic were well ahead of other countries in market reforms as well as in prospects for accession to the European Union. What explains this puzzle? A study found that robust political competition among parties limited the discretion of executives who might have wanted to use state coffers to maintain their incumbency. Fearing replacement in future elections and potential retaliation if the opposition were to take power, incumbent politicians created relatively neutral monitoring and oversight institutions that could not be colonized by political rivals and that would guarantee a level playing field (Grzymala-Busse 2006).

Major Ideological Shifts. The power of ideas to transform institutions has long been noted and documented (Hayek 1978). The transition from capitalism to communism and vice versa triggered profound changes across many institutions: property rights were reconfigured through waves of nationalization and privatization, the type of political regime was transformed

overnight, and individual incentives were considerably altered. To understand the powerful exogenous impact of such ideological shifts, just imagine the sweeping capacity of some states to modify preexisting social norms that had survived for centuries, as well as the very fabric of property rights and basic social interactions. For example, Mao's China banned the practice of women's foot binding overnight. At the other end of the spectrum, post-Communist regimes attempted to reverse the logic of land property rights following decollectivization but in the process interfered with the society's understanding of kinship and family networks (Verdery 2003). As Concepts in Practice 4.6 will show with respect to Estonia's transition from commu-

CONCEPTS IN PRACTICE 4.6

The Power of Ideas and Tax Reforms

Mart Laar, a historian by training, became prime minister of newly independent Estonia in 1992. During his first term as prime minister, from 1992 to 1994, he pursued a radical change in economic policies that saw Estonia's economy transformed from a part of the USSR to one of the most liberal market economies. A particularly contentious component of this reform policy was the implementation of a flat rate on income meant to simplify the tax code, increase revenue (decrease tax evasion), and help cement Estonia's reputation as a business-friendly country. Eventually, Estonia's flat-tax example was emulated by many other formerly Communist countries, including Bulgaria, Latvia, Lithuania, Romania, the Russian Federation, Slovakia, Ukraine, and, most recently, Hungary (Bemis 2011).

How did Estonia become Eastern Europe's pioneer in the flat-tax revolution? Western institutions such as the European Union did not support the flat tax, and in fact the International Monetary Fund initially gave the proposed reform a very cool reception. Instead, the idea came from Milton Friedman's book, *Free to Choose,* which advocated a flat tax and was the only economic text that Mart Laar claimed to have read. Thinking Friedman's idea logical, Laar simply implemented it.

Following transition, many Estonian economists thought that the imposition of such radical economic policies was unworkable. Laar, however, assumed that rapid privatization and the flat tax reforms inspired by Friedman's work have already been tested, successfully adopted, and well routinized in many Western countries. In his own words, his reform team 'walked on water' not knowing it to be impossible (CATO 2006).

In this way, a major element of Milton Friedman's fiscal policy prescriptions became the cornerstone of tax policy in most of Eastern Europe and the former USSR—not because of the prescriptions of the economics profession, but because of the reading priorities of a historian.

Source: CATO Institute (2006); Bemis (2011).

nism in the early 1990s, shifting ideologies and theories can have a big impact on reform opportunities and processes.

The Other Side of the Coin: Institutional Resilience, Path Dependency, and Critical Junctures

One theoretical perspective[6] departs from the idea of institutions as "self-reinforcing equilibria" and focuses instead on particular historical junctures that have led to lasting arrangements. In this account, the resilience of seemingly underperforming institutions sheds light on the long-lasting mechanisms of the reproduction of rules, despite shocks that could have disrupted them (Thelen 1999).

This concept, often called *path dependence*, means that outcomes and patterns are locked in for long periods of time, making reversal of the processes hard or impossible (Pierson and Skocpol 2002). Even if the rules to which the stakeholders subscribe stall development, they survive because of the reinforcing feedback mechanisms that generated suboptimal incentives for the actors in the first place.

An often quoted example is the development of the so-called QWERTY typewriter keyboard at the end of the 19th century (David 1985).[7] Despite the later invention of more efficient alternative products,[8] QWERTY still became the most commonly used keyboard on the market because a number of factors converged to lock it in as the predominant choice. Once a critical mass of consumers started using it, the switching costs (the time one would need to invest in learning a new typing system and transitioning to a new keyboard) were prohibitively high. In addition, the larger the pool of consumers using QWERTY, the more profitable for specialized stores to sell QWERTY typewriters or computers and the more useful for new users to learn this style as opposed to direct competitors like the Dvorak keyboard. Economists often call this reinforcing process "network externalities" or "external increasing returns."

This analytical perspective emphasizes the role of history, temporal sequences, macro political-economic contexts, and complex configurations of structural conditions over long periods of time. The story of the QWERTY typewriter might have some lessons for development as well.

As shown in Concepts in Practice 4.7 with respect to the rise of neopatrimonialism in Africa, a legacy of weak institutions and strong tribal and ethnic loyalties can generate powerful incentives that perpetuate ethnicity-based patronage even when it is clearly suboptimal for development.

CONCEPTS IN PRACTICE 4.7

Neo-Patrimonialism in Africa and Historical Legacies

After decolonization, many African states inherited weak political institutions. This void created the space for elites associated with governments to rely on patronage. Thus, the state became neo-patrimonial, combining modern bureaucracies with traditional patron-client networks built on the exchange between political support and concrete material benefits for narrow pockets of elites. This pattern of rule significantly constrains the possibilities for policy change to this day.

Other long-lasting historical legacies have also led to highly resilient structures of political influence. In former settler colonies like Kenya, Namibia, and Zimbabwe, the early European farmers established powerful interest groups whose political clout is still observable today in agricultural policy making.

Source: Van de Walle 2001.

Institutional (In)stability

Institutions are stable or resilient when they survive major economic and political changes and endure over longer periods of time (Levitsky and Murillo 2006). As much as path dependency and long periods of time might be responsible for locking in some very resilient underperforming institutions and the bad equilibria they generate, if institutions attempt to solve coordination and collective action problems and to stabilize actors' expectations, sudden changes and high volatility can also have a negative effect on beliefs, expectations, and preferences. If constitutions, legislatures, supreme courts of justice, or laws change overnight or if the civil service is staffed with incumbent party supporters following each election, then societal actors will fail to make long-term investments, with immediate consequences for economic development. As Concepts in Practice 4.8 below illustrates, the lack of institutional predictability creates a vicious circle that some call the "instability trap" (Helmke and Levitsky 2006; Levitsky and Murillo 2009), perpetuating a self-reinforcing trajectory of weak institutions over a long period of time.

Symptoms of Institutional Failure: Lack of Enforcement

Institutions generate pro-development incentives when they function properly. In the real world, rules vary on how consequential they are for policy

CONCEPTS IN PRACTICE 4.8

Lifespan of National Constitutions around the Globe

In the entire universe of national constitutions, on average, institutional arrangements last 19 years. The range of variation is huge: the U.S. Constitution, drafted in 1789, has survived for more than 220 years; at the other extreme, the Dominican Republic and Haiti together account for about 7 percent of the global number of constitutions because of their dramatic instability.

Let us take a quick look at the island of Hispaniola—a true "constitutional graveyard" (Elkins, Ginsburg, and Melton 2009, 180–185). During the 20th century, both the Dominican Republic and Haiti, the two countries sharing the tiny island, oscillated between democratic and autocratic regimes. The wide polarization between incumbents and oppositions increased the stakes of staying in power. Accordingly, when one of the parties came to office, it changed the constitution to set rules that would favor it politically. Paradoxically, during periods of strong executive rules in both countries (the Trujillo years in the Dominican Republic or the Duvalier regime in Haiti), presidents did not just make amendments—the easier path—but rather rewrote the legal document completely. This self-reinforcing constitutional death pattern created a spiral of all-or-nothing gains that, in turn, fed a climate of severe political and economic instability.

Source: Elkins, Ginsburg, and Melton (2009).

outcomes. Most reforms are attempts to remedy one form or another of institutional failure or malfunctioning. If actors ignore the rules of the game, believe that the rules are unfair, or think they themselves will not be sanctioned for noncompliance, the rules fail to produce incentives of any kind.

Good enforcement and some degree of stability are symptoms or manifestations of well-functioning institutions (Levitsky and Murillo 2009). Enforcement refers to the degree of actors' compliance with the rules of the game.

Weak Institutional Enforcement

Many developing countries are characterized by weak formal institutions, created intentionally or unintentionally. In some cases, the actors who wrote the rules genuinely want to enforce them, if they have the capacity to do so. More often, they lack either the capacity or the will to enforce them (Levitsky and Murillo 2009, 120).

A weak civil service or a limited reach of the central state into remote regions of a country, for example, has been found to severely curtail the state's ability to monitor and sanction deviation from the rule of law. Some studies suggested that, in the 19th century, the Peruvian state, because of its unwillingness to challenge local hierarchies, had limited reach in the countryside and therefore failed to effectively raise taxes. This failure significantly hindered the development of the rural regions relative to their urban counterparts. In contrast, Chile was able to exercise more effective control over its rural areas and, therefore, has been able to craft and implement more successful development projects in both rural and urban regions (Soifer 2006).

Why is it that Chile and Mexico had a greater state capacity than Colombia and Peru, despite their shared cultural and institutional legacies? One historical factor affecting the capacity and effectiveness of the state seems to have been the ability and willingness of key elites in Chile and Mexico to use national bureaucrats to make and implement local policies, thereby freeing decision making from the grip of entrenched local patrons. While such a policy has its limits—bureaucrats' incentives were not necessarily fully aligned with those of local populations—they were effective in ensuring that national policies (infrastructure projects, tax collection) were implemented more effectively than when local power barons could capture national resources with little oversight on how these funds were used.[9]

In general, lack of political incentives is a key factor in weak institutional enforcement. Many governments in the developing world often adopt "window-dressing" institutions in order to comply with the donor community's conditions on borrowing but never plan to enforce them (Levitsky and Murillo 2009, 120). This is known as the Potemkin (or "fake") village phenomenon. Politicians usually lack incentives to build "real" villages because citizens cannot act collectively and sanction them for deviation, preferring instead to pocket the money allocated for development projects.

In other cases, weak institutional enforcement is the product of the bargaining strategies of political actors. For example, even if initially Brazil and South Africa could not guarantee enforcement of certain racial- and gender-equality rights inscribed in their constitutions, human rights activists still pushed for their official inclusion in the legislation, hoping that they could become effective at a later point in time (Htun 2003; Levitsky and Murillo 2009, 121).

Weak institutional enforcement, in some cases, is also the product of demand-side factors such as societal compliance (or lack thereof). High socioeconomic inequality can hamper systematic enforcement. In the early 1990s, Brazil and South Africa were two of the most unequal societies on

earth. Despite the similar degree of income inequality, the ability of the state to collect taxes and implement fiscal policies varied remarkably. South Africa was able to collect taxes effectively and ensure that even rich citizens complied. Conversely, in Brazil rich elites were able to exempt themselves from most direct taxation, ensuring that the tax burden fell disproportionately on the poor.

One of the reasons that tax compliance was so different in the two countries stemmed from the social cleavages characterizing these societies. In South Africa, as a result of the solidarity between rich and poor whites, the rich were more willing to comply with the tax demands of the state. Conversely, in Brazil, where official discrimination was prohibited—although it was pervasive in practice—the rich felt less solidarity with any segment of the rest of the population. Thus, paradoxically, it was easier to establish fiscal policies that sought to redress past injustices against the Black population in South Africa (following the 1994 transition to democracy) than in Brazil, where fiscal compliance by the rich continues to be erratic and the state thus relies on more regressive and distortionary forms of taxation.[10]

Sometimes, the core logic of certain institutional arrangements stems from weak compliance. In many low- to middle-income countries, as public sector jobs decreased and incumbent politicians failed to credibly commit to generating employment for young college graduates, the informal economy became a necessary exit opportunity for the unemployed. Any attempts to reduce it by formalization met strong political discontent and resistance (Hibou 2006).

Similarly, in some contexts, selective enforcement of institutional rules is a powerful strategic tool of political co-optation or punishment. In Ben Ali's Tunisia, for example, access to bank credits or development subsidies for entrepreneurs was often granted based on personal relationships with key political actors, not on market criteria (Hibou 2006).

In general, clientelistic political systems, in which the incumbent party channels benefits only to its own voters, function on a logic of weak institutional enforcement of formal rules. Symptoms of weak institutional enforcement may include:

- Weak capacity (lack of resources)
- Weak political will
- Eroding informal institutions (clientelism)
- Adopted institutions that fail to achieve equilibrium because they do not fit the underlying distribution of power in society
- High stakes of the game (socioeconomic inequalities or wide political polarization).

The underlying causes of institutional failure are also the obstacles to collective action that we will be exploring in depth in the following chapters, which include information discrepancies, absence of credible commitment on the part of politicians, agency problems, institutional manipulation, and other forms of imperfections that erode the capacity of citizens to act effectively.

To sum up, taking into consideration the factors discussed in this chapter, when conducting a political-economy analysis, the researcher should ask the following questions about institutions and organizations:

- What are the formal and informal rules governing your policy domain of choice?
- Are they enforced or not? Why?
- Are they durable? Did they survive any major exogenous shocks in the recent past?
- Why does stability vary across different institutions?
- What is the analytical link among institutions, incentives, and the potential for pro-development collective action in your policy area or sector?
- Can you identify organizations involved in a project you have worked on or a public policy issue you are interested in?
- How did the institutional context in which these organizations operate affect their ability?
- Did the rules of the game make it easier or more difficult for each individual organization to achieve its goal?
- Are these organizations monolithic in preferences and reform stakes?
- Which organizational subunits would gain most from the passing of a certain piece of legislation? Do they benefit or not from the current rules?

Institutions affect how actors interact with each other, determining the outcomes of a social situation. Therefore, for a better knowledge of policy consequences, it is essential to understand the logic of strategic interaction between actors. This process will enable us to think about how different institutions, by altering the nature of this interaction, can affect outcomes. Game theory provides the tools by which we can study the interaction of actors in different institutional contexts. The core ingredients of a game follow.

Modeling the Role of Institutions with Game Theory[11]

Let's recall the game introduced in chapter 3, dealing with the collective action problem two farmers faced. Because each farmer had an incentive not to cooperate (but to defect), both farmers were collectively worse off because

they could not cooperate on building an irrigation system for both farms. Institutions can potentially mitigate such collective action problems by providing mechanisms to reconcile the interests of individuals with those of the group.

Assume, as in chapter 3, that the two farmers would benefit from constructing an irrigation system for their farms. Furthermore, assume that they now live in a country with a very robust and efficient legal system that enables them to write contracts with each other. Specifically, if the farmers enter into an agreement to construct an irrigation system jointly, but one of them does not cooperate (that is, the farmer defects), the courts will speedily and efficiently fine the noncooperating (defecting) farmer, effectively taking her crop yield and using it to compensate the farmer who did not renege on her agreement.

Assuming that the farmers have entered a legal agreement to cooperate and build the irrigation system; the preferences of the first farmer (the farmers' preferences are symmetrical) are based on the payoffs she would receive, as follows:

- If the first farmer reneges on her construction commitments but the second farmer does not renege, the first farmer is fined, losing all her crops. The second farmer bears the costs of the irrigation system, but she also has enough food to sustain her family (due to the fine) and subsequently benefits from the existence of the irrigation system.
- If the first farmer builds the irrigation system but the second farmer reneges on her construction commitment, then the first farmer bears the full cost but also receives compensation (able to feed her family) and the benefit of the irrigation system. The second farmer loses all her crops (due to the fine).
- If both the first and the second farmer build the irrigation system, they both bear some of the cost (less time to grow their own crops), but they both enjoy the benefits of higher crop yields.
- If both farmers renege on the agreement, the agreement is rendered void, and they both have a normal yield (equivalent to the fine).

The diagram below shows these payoffs. Cooperation is now a strictly dominant strategy; that is, both farmers will cooperate regardless of what they think the other farmer will do.

	Cooperate[b]		**Defect**[a]	
Cooperate[b]	3	**3**	2	**1**
Defect[a]	1	**2**	1	**1**

a. Defect here refers to noncooperation.
b. "Cooperate, cooperate" for both farmers is the equilibrium of the game, denoted by the asterisk.

Summary

The outcomes of the political process depend on how the institutional context determines the feasible courses of action that different stakeholders can take. Therefore, being able to map and analyze the institutional context can significantly increase the value added of a political-economy analysis. By identifying the formal and informal institutions and the conditions under which they may change, a researcher can anticipate the equilibria that exist or that may emerge. As the next few chapters will demonstrate, specific institutional settings can engender various opportunities and challenges to stakeholders' ability to realize their own agenda. The reformer will thus be able to identify how some rules may empower stakeholders either to support or to oppose a reform proposal or set project priorities appropriately.

Exercises for Chapter 4: Theories and Mechanisms of Political Economy: Institutions and Equilibria

Exercise 4.1: The Prisoner's Dilemma Game[12]

The facilitator explains the steps involved in the Prisoner's Dilemma.

Steps in the exerciser (time frame: ~40–45 minutes):
1. Read out instructions (1 minute)
2. Allow participants to read and answer (5–10 minutes)
3. Collect responses, tally responses, facilitate group discussion (10 minutes)
4. Lecture (10–15 minutes)
5. Class discussion (10 minutes)

Preparation and Materials:
1. Envelopes (A4 size) to be placed in the middle of the round table (one at each table)
2. Pens should be available to all participants
3. Copies of the instructions
4. Copies of the answer sheet
5. Copies of the key questions handout and group discussion
6. Facilitator instructions

Procedure:
1. The facilitator reads aloud the following instructions:
   I am going to distribute instructions and an answer sheet. Read the instructions and answer the questions on the answer sheet. Once you have read the instructions and completed your answers, place your answer sheet in the envelope in the middle of the table. DO NOT WRITE YOUR NAME ON EITHER DOCUMENT and MAKE SURE NO ONE SEES YOUR ANSWERS. Keep the instructions handy for the follow-up discussion. I will give you about 5–10 minutes to complete this.
2. The facilitator distributes the instructions handout and answer sheet to all the participants.
3. The facilitator gauges the rate of completion of the assignment and gives participants a 2-minute warning so that the activity can wrap up within its allotted 10-minute time frame. As part of the 2-minute warning, the facilitator reminds participants that they should not write their names on the answer sheet; when they have finished, they should put their answer sheet in the envelope in the middle of the table.

4. The facilitator explains:
   I will come around to collect the envelopes with the answer sheets and tally your responses. At the same time, I will give you a handout that includes two key questions. While I tally the responses on the answer sheets, please go ahead and discuss at your tables the two questions on the handout. Spend approximately 10 minutes in this discussion.
5. To tally the votes, the facilitator uses a blank answer sheet and notes for each option the total number of votes.
6. The facilitator walks around the room among the tables in a nonintrusive manner and pays attention to what is discussed. The facilitator notes a few comments from the tables that he or she can highlight as part of the transition to the lecture portion.
7. The facilitator gives the participants a two-minute warning to wrap up their discussion.
8. The facilitator explains:
   Now, that you have played the game and had a chance to discuss with others at your table some of the key underlying issues, I will go ahead with a mini-lecture to talk about the technical aspects in relation to the conceptual aspects that you addressed in your discussions. In fact, I noted the following key words being used at several tables:
   a. Trust
9. The facilitator presents the lecture beginning with the announcement of the final overall tally by entering the results on the first slide. The facilitator ends the lecture by posing the following questions to the entire group:
   a. How many of you were surprised by the entire group's final tally that I shared at the beginning of the slide?
   b. If yes, why?
   c. If no, why?

Handout Exercise Set 4.1: Instructions Handout 1

You and a colleague (whom you do not know well) have been arrested after committing a crime. Upon arrest you were separated (there is no way to communicate with him or her). You are now in a police cell and the police negotiator informs you that they are willing to offer you the following deal, which is simultaneously also being offered to your colleague (you can assume this information is true):

- If you confess to the crime and your colleague does not confess to the crime, you will receive a reduced sentence of 1 year in prison, while your colleague will receive a full sentence of 12 years in prison.
- If you do not confess to the crime but your colleague does confess to the crime, you will receive a full sentence of 12 years in prison while your colleague will receive a reduced sentence of 1 year in prison.
- If you both confess to the crime, you will both receive a reduced sentence of 6 years in prison.
- If neither one of you confesses, you will both receive a reduced sentence of 3 years.

Handout Exercise Set 4.1: Answer Sheet 1

Please indicate below, by ticking (√) the box next to the appropriate action, what you would like to do. PLEASE TICK ONLY ONE BOX.

Confess to the Crime	
Do Not Confess to the Crime	

Please indicate below, by ticking (√) the box next to the appropriate action, what you would like to do. PLEASE ONLY TICK ONE BOX.

He/she will confess to the crime	
He/she will not confess to the crime	

Briefly explain why you decided to pursue one action rather than the other.

Once you have completed your answers, put them in the envelope in the middle of the table.

Handout Exercise Set 4.1: Key Questions Handout 1 — Group Discussion

In your group, please discuss the following questions:

1. What do you expect the result of the game/tally to be among all participants across all tables? Why do you think this is the case?

2. How does taking into account someone else's behavior affect your decision?

Notes

1. This distinction is specific to the new economic institutionalism.
2. *Self-enforcing equilibrium* has the following characteristics: (1) best strategy among the feasible strategies for all players; (2) any change in behavior triggers change in the other players with inferior outcomes; and (3) actors have the capacity and willingness to punish deviant behavior.
3. See also North (1984, 1990).
4. See the separate subsection for the concept of self-enforcing equilibrium.
5. Various institutionalism schools operate with different assumptions related to how "endogenous" (embedded in preexisting social relations and power configurations), or "exogenous" (actors have well defined ex ante preferences) institutions are. The Rational Choice School, for example, assumes for the most part that institutions are exogenous (Weingast 2002).
6. Historical institutionalism.
7. For a critique of this interpretation of the QWERTY narrative, see Liebowitz and Margolis (1990).
8. The Dvorak Simplified Keyboard, invented in 1936, was technically superior to QWERTY on many indicators such as finger motion, typing time, and the like.
9. Adapted from Soifer (2006).
10. See Lieberman (2003).
11. *Source:* Inspired by (Bardhan 1993).
12. *Source:* Inspired by (Gibbons 1992).

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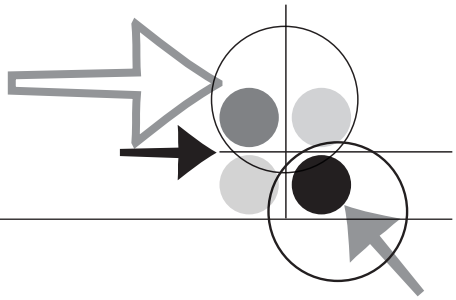


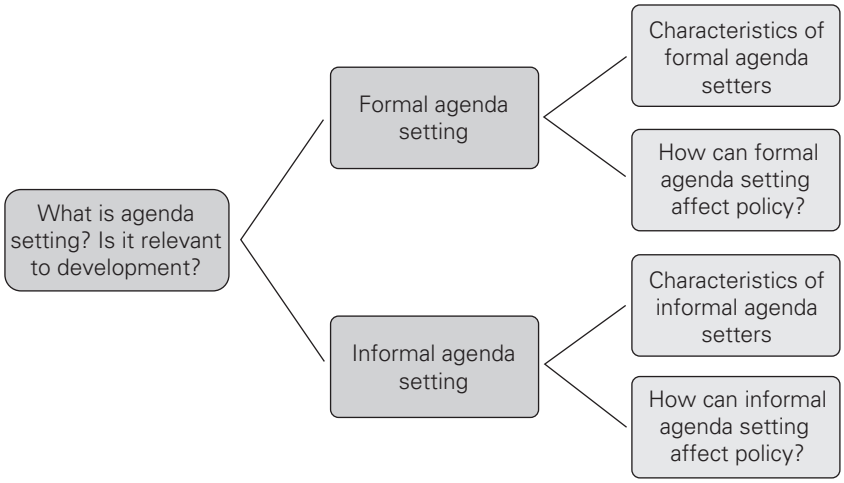
CHAPTER 5

Collective Choice and Agenda Setting

Collective decision making often entails making a choice between several different viable alternatives. Sometimes, how decision makers present and compare these alternatives—that is, how they set an agenda—can determine which policy alternative is chosen, regardless of merit. In many policy-making contexts (especially in legislatures), the final decision can depend on the agenda-setting power of certain actors rather than on the inherent desirability of any of the possible choices faced.

Specifically, agenda setting is an institutional mechanism (see chapter 4) that mitigates the collective action problems faced by some or all of the individuals or groups with a stake in policy outcomes (see chapter 3). Agenda setting can facilitate collective action by helping groups economize on information; by allowing a subset of the group to develop specialist knowledge (for example, committees in legislatures, such as foreign affairs, public finance, defense, etc.); and by promoting group cohesion (for example, cohesion of a political party can be strengthened if committee appointments and membership are based on seniority or on a record of disciplined adherence to party policy).

FIGURE 5.1 Agenda-Setting Conceptual Map



Source: Authors.

Therefore, understanding the role of agenda setting can help reformers both identify powerful agenda setters who might help or hinder their reform proposals, and design institutions to take into account future agenda-setting dynamics.

Normatively, the mere existence of agenda setting raises fundamental questions about the ways in which majority will translates into concrete policy outcomes. Of course, it is also important to note that the absence of agenda-setting mechanisms can also present challenges. Specifically, the lack of agenda control can generate information problems and a lack of cohesion among stakeholders. Learning about agenda setting is also relevant because in everyday development work the absence of such institutional mechanisms can lead to a lack of coordination, a weak detection and monitoring capacity, and, subsequently, suboptimal organizational outcomes. Therefore, it is useful to acquire the analytical tools that help understand the origins, organizational location, and probability of change associated with specific institutional problems (see figure 5.1).

This chapter uses the concept of *agenda setting* to show how a development practitioner can recognize and use institutional rules to alter policy outcomes. Reformers should ask themselves the following questions:

- Among the variety of rules governing the policy domain of interest, which ones are most relevant for change?
- Are these rules enforced?

- What strategic tools can be used to navigate existing formal and informal rules to bring the policy outcomes closer to the ideal goals?
- Who is responsible for scheduling the order in which policy proposals are submitted for debate and voted on according to the organizational procedure?

Objectives of Chapter 5

By the end of this chapter, readers should be able to do the following:

- Identify the relevant formal and informal agenda-setting institutions that govern the policy domain
- Understand how agenda setting can induce changes in the final outcome irrespective of the distribution of stakeholder support for a certain policy alternative
- Explore potential positive or negative effects on policy change and reform caused by the absence or existence of agenda-setting power.

What Is Agenda Setting?

Agenda control, or setting, refers to how the *process* of decision making affects outcomes irrespective of the substantive merit of each policy proposal.[1] The sequencing of decision making, the timing of voting procedures, and the skillful use of rules that govern the form in which bills or amendments are brought up for legislative debate are classic examples of agenda setting and will be explored in depth throughout this chapter. An often-quoted example illustrates the point: John Dingell, a former Democratic representative in the U.S. Congress, once said, "I'll let you write the substance . . . and you let me write the procedure, and I'll screw you every time."[2] The tremendous political power held by the Committee on Rules in the U.S. Congress since the 1880s is clear evidence that the use of voting rules in policy making matters significantly for the final legislative results.

The importance of agenda setting first came to prominence in the 1950s and 1960s as scholars in political science increasingly began to question the received orthodoxy that the raw power (number of voters, seats in parliament, and the like) of a group translated directly into an increased ability to influence outcomes. One of the major criticisms of this "classical pluralist" approach was that it did not take into account the ability of certain groups—not necessarily the largest groups but those that could overcome collective

action problems most effectively—to use their superior capabilities to set the agenda and manipulate outcomes in their favor (Riker 1981).

We can think of agenda setting as having two dimensions (Bachrach and Baratz 1962): the first dimension is the choice between the alternatives on offer, and the second is the ability to determine what the choices are in the first place. Because agenda-setting individuals or groups may well not be the same as those who exercise the most power when deciding among alternatives, the importance of institutional rules and procedures governing the selection and scheduling of policy proposals can be significant.

The following sections briefly explain the process through which the policy preferences of stakeholders are aggregated to generate collective policy, thereby making it easy to see how strategic agenda setters might be able to use their power to influence outcomes.

From Individual Preferences to Collective Choice

Individuals and organizations have different interests, stakes, and incentives in policy change. For example, let's assume that a local council has to deliberate over and vote on the location of a bridge. At the council, each of the three districts is represented by a councilor elected by the voters from that district, with each district having an equal number of votes on the council. One community might prefer the bridge to be built in its own district, but if that is not possible, it will prefer that the bridge be built in the neighboring district, rather than the district that is farther away. Another community, depending on its geographical location, will order its preferences differently. *Collective choice* is the process that converts such heterogeneity of policy positions into concrete outcomes.

Agenda setting (that is, the use of preference-aggregation rules such as voting) intermediates the way in which individual preferences translate into collective choice. Thus, agenda setting helps solve a fundamental problem characterizing majoritarian decision-making settings,[3] namely, the fact that the aggregation process through which individual choices become policy decisions leads to instability or "cycling" among multiple possible equilibria (Riker 1981; Shepsle 1989).

One of the most consequential institutions in many legislatures around the world is the use of committees to filter legislation. Committees develop specialist knowledge of a policy topic and have the power to select bills for debate in the legislature. As a consequence, few bills reach the floor. Committees limit the number of policy proposals to a more manageable number, although they may also have the effect of limiting the ability of the full legislature to amend bills. In this way, the existence of committees plays a critical role in ensuring that the workload of legislatures remains manageable.

The agenda-setting powers of legislative committees often translate into concrete development outcomes. Let's take a look at an example of "handing out the pork" in the German parliament (Stratmann and Baur 2002). Because committees decide which bills are voted on in the full legislative chamber or how the content of proposed legislation is altered, many committees have the power to ensure that the final version of a bill is closest to the interests of their (majority) membership. It has long been known that, because of these agenda-setting powers, election-seeking politicians may attempt to obtain committee positions through which they can use this power to further the interests of their own constituents. For example, in the case of the German Parliament, in which the elections of some members are determined by a constituency plurality (first past the post) rule and others under proportional representation (or through party lists), there is significant self-sorting on committees as politicians jockey to provide rents to their voters. Thus, unsurprisingly, committees that allocate spending to certain geographical areas are dominated by politicians elected from constituencies, while committees that allocate spending independent of geography but whose expenditure can be targeted to diffuse groups across the country are dominated by legislators elected by party lists. This desire to obtain relevant committee membership highlights the importance of agenda setting as a mechanism to please core voters and secure reelection.

Cycling

To return to our example of the new bridge to be constructed, assuming four policy alternatives (*x = bridge construction in District 1, y = bridge construction in District 2,* and *z = bridge construction in District 3*), three groups of voters have the following ranking of preferences (notation *P* to be read as voter from District 1 prefers *x* to *y, y* to *z, x* to *z,* etc.):

Voter from District 1: x P1 y P1 z
Voter from District 2: y P2 z P2 x
Voter from District 3: z P3 x P3 y

We need a majority (50 percent plus one, in this case, two voters) to agree on their rankings of individual preferences in order to aggregate them optimally in the final ordering of the group preference. What alternative ranking would win two votes? Notice the unstable equilibria for *x*, *y*, and *z*. No matter how hard one tries to find a sequence of *x*, *y,* and *z* that would aggregate the will of the majority best, the efforts will fail (for the entire group, x P y P z P x P y P z P x). Therefore, *x*, *y*, and *z* form a *cycle* (Johnson 1998).

Sometimes in efforts to aggregate preferences, some policy alternatives will win independently of the sequencing of the voting or the ordering of any other alternative. This concept is often referred to as a *Condorcet winner*.[4]

Unlike alternatives that are subject to cycling, a Condorcet winner is an alternative that can defeat each of the other alternatives in any pairwise majority vote. In this case, if our voters preferred a fourth alternative *w* (say, a bridge built at the joint border of all three districts) *that defeats x, y, and z in all three cases described above*, then *w* is a Condorcet winner.

As Concepts in Practice 5.1 explains in more detail, this problem of identifying the majority-preferred outcome in the presence of cycling is a major

CONCEPTS IN PRACTICE 5.1

Optimum Outcomes and Constraints

Given cycling, what is the major dilemma a policy maker faces when trying to identify the majority-preferred outcome? As Nobel Prize–winning economist Kenneth Arrow formally demonstrated (Arrow 1951), no voting system can aggregate individual preferences in a way that satisfies the basic criteria of fairness. Therefore, it is impossible to know whether an outcome reflects the will of the majority or is the product of agenda manipulation by politicians.

Arrow's famous (im)possibility theorem has had a profound effect on our understanding of the normative implications of collective decision making. It has proved that no voting system can aggregate individual preferences in a manner that does not violate at least one of the following three conditions, which are often identified as being inherently desirable (fair) in collective decision making:

- If every individual in a group prefers alternative *x* to *y*, then the group will also prefer *x* to *y*.
- If every individual's preferences for alternatives *x* and *y* remain the same, the group preferences will also remain the same (even when individual preferences for other alternatives change, say *w*).
- There is no dictator who can impose his or her preferences on the group. This means that if one person in the group cares intensely about having the bridge built in District 1, she cannot unilaterally impose her will so that the entire group prefers the same location for the infrastructure project.

While it is beyond the scope of this work to formally show how Arrow's theorem is proved, its implications for social choice are clear: in theory, the fact that there is no aggregation method that satisfies all three conditions at the same time implies that no voting procedure is ideal for reflecting the "will" of the majority. Thus, as Riker (1981) showed, the nonexistence of such an "objective" social optimum enables political entrepreneurs who can manipulate agendas to impose their private preferences on society. In other words, group decisions (public policy outcomes) may reflect the private preferences of the most adept political manipulators rather than the "will of the people."

preoccupation of social science, as it makes it difficult to argue that, even if a benevolent policy maker exists, he or she can actually know what is "best" for society.

Why Agenda Setting?

Given the inherent instability of aggregation (reflected in the previously introduced concept of cycling and the general impossibility theorem), it has been argued that agenda setters (the committee system in some legislative institutions, for example) can (1) eliminate or prioritize policy alternatives and (2) strategically instrumentalize the voting power of political actors in a way that leads to the so-called structure-induced equilibrium (Shepsle and Weingast 1984, 1987; Riker 1986; Ordeshook and Schwartz 1987; Tsebelis 1994, 1997). Simply put, by manipulating voting procedures, strategic agenda setters can structure the political debate in such a way that they are more likely to get what they want (Pollack 1997, 121–122).

Types of Agenda Setting

Often, in political economy, agenda setting refers to two distinct processes, formal and informal. Most of the official voting rules briefly described below fall into the category of *formal agenda setting*. The locus of agenda control and the political power of the agenda setter depend on the following factors (Pollack 1997):

- *Initiative rules*. Every legislative body has an idiosyncratic set of actors endowed with the right to initiate legislation. For example, in the U.S. Congress, specialized committees have disproportionate power over legislative proposals. In the European Union, the European Commission holds the right as the sole initiator of legislation.

  In the case of the Philippines public procurement reform, documented in greater detail in appendix C, the ability to initiate a new bill rested with specific committees in the legislature. In 1998, during the early days of reform attempts, when President Joseph Estrada was facing corruption allegations and had incentives to give legislative priority to a "clean" public procurement bill, his office needed to identify a member of Congress who was willing to sponsor the proposal and who belonged to a committee that would be sympathetic to the reform. The Budget Department's Legislative Liaison Office, keeping a low profile to avoid attracting open opposition to the reform attempt, found an influential member of the Committee of Public Works who was interested in the reformers' proposal.

The congressman who decided to sponsor the bill had previously initiated a legislative proposal on sanctions for violations of government contracting regulations and agreed to substitute the procurement package for his original initiative. Only two weeks before a legislative recess, he managed to use his influence with the Rules Committee to introduce the bill for debate with unprecedented speed, despite not being scheduled, and to bring it to the floor when most opposing legislators were absent and a neutral quorum was met.

- *Voting rules*. Under majority voting, a strong agenda setter can structure the decision process in a way that ensures a stable equilibrium close to its desired policy. Many times, in both parliaments and organizations, *the choice of the voting rule* can have profound implications for the final policy outcome. We have already suggested in previous chapters that the electoral rules through which political representatives are selected (on national party lists or through a "winner-take-all" system at the district level) may give politicians different incentives to offer clientelistic or universalistic public goods to their constituents. Similarly, legislatures, political party congresses, caucuses, organizations, or coalitions often employ various voting methods that count and aggregate individual preferences differently.

  In *one-vote systems*, all members of an organization pick only one among all possible options. In our bridge construction example, the voters of District 1 choose option *x*. In *ranked or preferential systems*, voters get to rank their options and assign points according to the rank. According to one such rule (Borda counting), District 2 voters will give a score of 3 to *y*, a score of 2 to *z*, and a score of 1 to *x*. In the end, the sum of total votes obtained by all alternatives decides the winner.

  In *rated voting systems*, voters can assign any grades or points within a range (say, 0 to 10) for all three options (District 3 voters could assign a score of 10 to *z*, 7 points to *x*, and 1 point to *y*). In our case, a Borda voting system will give the same number of 6 points to all options. In other cases, however, because ranked or rated voting systems are more sensitive to the averages of preferences across districts, they might lead to the selection of broadly acceptable policy options as opposed to those simply preferred by the majority. If agenda setters can select organizational voting rules, they are likely to influence the final outcome and either empower or bypass majorities. The interactive exercise at the end of this chapter will show how *the voting sequence*, or the order in which these three bridge construction site alternatives are submitted for majority decisions, can render a winner desired by the agenda setter.
- *Amendment rules*. Sometimes, amendment rules require just 50 percent plus one vote; other times, it is easier to accept an agenda setter's full bill

proposal than it is to amend it. The European Commission is a case in point. Because of the unanimity rule governing its amendment powers, it is virtually impossible to amend its proposals.

In many legislatures around the world, committee rules with respect to who can propose, how, or in what shape or form amendments can go to the floor of the assembly for debate are numerous and granular. Their level of detail and technicality is often discouragingly complex for anyone not intimately acquainted with the legislative process. The standing U.S. Senate Manual of rules, orders, laws, and resolutions for the 112th Congress is a huge tome of no less than 1,429 pages detailing the minutiae of senators' work, protocols, and procedures. As we will see in the next section of this chapter, in some legislative assemblies, even small changes in rules affecting the order of amendments to bills, or the form in which the amendment is proposed (for example, if it is to be included in the original text of the bill or kept separate) can lead to policy outcomes that are quite different from what the majority really prefers.

For reformers, this factor can be both bad and good news. On the one hand, the high level of complexity makes the legislative process intimidating and difficult to navigate. On the other hand, the devil is in the details. Sometimes, paradoxically, key amendments to preexisting laws and regulations or consolidation of scattered regulations might be more important for providing quick gains to reformers than submitting for debate an entirely new bill that would meet open opposition.

In 2001, in Kenya, during the last days of the Moi administration, the public procurement system was plagued by severe corruption and colonized by entrenched political patronage networks. A reform team decided to tackle the challenge. The reformers' initial instinct was to prepare a new procurement act, make the attempt politically salient, and garner public support for reform. They were instead advised to take advantage of amendment procedures to the preexisting Exchequer and Audit Act rather than making their efforts public and attracting intense opposition from vested interests. As a result, as part of an omnibus act clarifying the implementation of the Exchequer and Audit Act, the Kenyan legislature passed a new set of public procurement regulations that unified all the disparate acts governing procurement and created key institutions; thus, the reform team bypassed the fierce opposition it would have generated by passing a new law.

The Philippines public procurement reform features a similar trajectory. In 2001, the reform team took a step-by-step approach and first persuaded President Arroyo to pass an executive order that consolidated all previous procurement regulations, despite the fact that this act did not

allow amendments to the preexisting laws. This first step created a sense of policy ownership in the executive's office. In a second stage, the reform team garnered public support through the activities of a nongovernmental organization, Procurement Watch, and promoted the bill as a broader omnibus package designed to ensure transparency and not just a narrow change in the workings of public procurement. Thus, by building support incrementally, the reformers were finally able to gain sufficient leverage in both chambers of the legislature to ensure passage (see appendix C).

- *Heterogeneity of actors' preferences.* Often, the policy arena has a complex web of institutions, each having its own voting rules. In some legislative bodies, if the two chambers that need to jointly pass a bill have directly antagonistic interests (say, the majorities are held by two opposing political parties), the agenda setter (as the initiator of legislation) will refrain from even formulating the proposal in the first place. In the case of the Philippines procurement bill, the supporters' first attempt at passage in 1998 was obstructed because, while it passed in the lower house, the Senate had different political priorities and did not consider the bill. Whereas the congressman who sponsored the proposal in the lower house was a representative of the opposition and tried to distance himself from a president facing a corruption scandal, the chairman of the relevant Senate committee was closely associated with the president, did not have incentives to promote the bill, and strategically blocked it. Passage was finally assured after an election, which produced a more balanced distribution of party seats and a unified opposition party presence in both chambers. Subsequently, this new configuration allowed the reformers to identify a small number of pivotal supporters, from both the majority and opposition parties, to champion the bill, thereby allowing the media to portray its passage as a bipartisan effort (see appendix C).
- *The impatience (or time horizon) of the various actors to change the status-quo.* In many legislative settings, for example, as long as the agenda setter's proposal is better than the status quo, even if far from other actors' ideal or preferred policy, the bill could still pass. However, if the latter anticipate that the agenda setter is impatient to push the legislation (or has a short time horizon because of reputational or electoral risks), they can engage in a series of proposal rejections, until the agenda setter brings the policy closer to their preferences.

  This type of strategic voting caused by different time horizons reduces the power of the agenda setter (Pollack 1997). In contrast, if the other decision makers are impatient, the influence of the agenda setter increases significantly (Shepsle 1989; Pollack 1997, 124). The same logic ap-

plies to many legislative agenda-setting processes as well. To go back to the case of the Philippines procurement bill, the need for President Estrada, who faced a corruption scandal and the possibility of impeachment, to pass a law that tried to minimize corruption in public procurement became attractive five months before an election. As a result, the president became a key supporter of the bill in order to boost his reelection prospects and thus increased the agenda setter's bargaining position. Unfortunately, by the time the bill had reached the Senate, many of its members were busy trying to bolster their own reelection prospects and were able to outlast the president (see appendix C).

How Do Formal Rules Influence Outcomes?

As a sophisticated setting of agenda control, the U.S. House of Representatives has a vast range of rules for the *order, content, and form* in which amendments to legislative bills can be debated by the majority of members. This institutional setting allows the powerful Committee on Rules to "set the agenda" either by eliminating certain alternatives right from the beginning or by ordering their vote in a way that produces a result different from what another ordering alternative would have produced, even under conditions of sophisticated voting.

Order or sequencing of voting can alter the final outcome dramatically. The results change for alternative amendment voting agendas: for example, given a set of three proposals (x, y, and z), an agenda setter decides on pitting x against y, the winner of which is pitted against z out of all three sequencing possibilities. The two discarded sequences are x being pitted against z, the winner of which is pitted against y; and z being pitted against y, the winner of which is pitted against x.

Below are some examples of rules governing *the content of policy proposals* that can yield different policy results (Patty and Penn 2008).

- *"Closed" or restrictive voting rules* in some legislatures (including the U.S. Congress) allow only certain policy amendments to reach the floor for debate.
- *"Open" rules*, in contrast, allow any germane legislative amendments to be debated, thus aligning more closely with the majority will.
- *Ordered open rules,* as a subset of the previous category that combines effects of both *content* and *order,* prespecify the order in which these amendments are considered (Patty and Penn 2008; Krehbiel 1991; Olezsek 2007).

However, even if some rules are more open to policy alternatives than others, they still allow ample room for strategic manipulation by agenda setters. This aspect raises important questions about the design of collective choice institutions, as well as about their outcomes (Patty and Penn 2008, 20; Dummett 1984).

For example, in the case of open rules, even if all amendments are submitted for debate, *the form of submission* will still alter the result. In some cases, the committee on rules will consider amendments to a specific piece of legislation that would first be fully incorporated or printed in the original bill and sent out for debate as a substitute bill, instead of simply being submitted as disparate individual amendments. However, this version of the amended piece of legislation is also pitted against the unamended original bill when voted on the floor. What is the reason for the inclusion of the original bill as well? Despite the seeming redundancy, studies show that in such cases, the outcomes differ fundamentally, depending on whether the original bill is included or not. When the original bill is included, the floor is more likely to choose the substitute bill as is. In the other case, the substitute bill will be chosen only after being amended on the floor by the majority (Patty and Penn 2008; Bach and Smith 1988).

By anticipating the voting outcome, the strategic agenda setter (in this case, the Committee on Rules in the U.S. House of Representatives) is thus able to deliberately select specific voting rules that would bring the policy content closer to its ideal point.[5]

Informal Agenda Setting

While formal agenda influence is conferred by clear and codified decision-making rules, for *informal agenda control,* the agenda setter must be a skillful policy entrepreneur who, under conditions of imperfect information[6] and legislative impasse or polarization, can construct "focal points" for bargaining and bypassing obstacles. Rather than deciding on voting rules as in the case of formal agenda setting, the entrepreneur just offers an idea that can rescue the bargaining process when there is no other equilibrium (Garrett and Weingast 1993; Pollack 1997, 125).

Informal agenda-setting power requires policy creativity. The interesting thing about it is that many actors (lobbyists, legislative committees, influential individuals, media representatives, and civil society organizations, among others) can be policy entrepreneurs, unlike the formal agenda setter, whose role is clearly inscribed in institutional codes.

Regardless of whether agenda setting is formal or informal in nature, the tools of agenda manipulation are often similar (Riker 1981, 1986):

- *Heresthetics* can broadly be defined as the attempt by an individual policy entrepreneur or a cohesive group to try and manipulate the context or structure of a decision-making process to ensure a more favorable outcome.
- *Rhetoric* is the art of using language effectively to inform, persuade, or manipulate an audience.
- *Agenda control* means using formal legislative rules of proposal and amendment to obtain favorable voting outcomes.
- *Strategic voting* means using voting procedures to control outcomes.
- *Manipulation of dimensions* involves redefining a situation to create a stronger coalition.

Informal agenda-setting power also closely relates to the concept of *leadership*, as individuals who can persuade supporters of a reform to form a viable coalition or can use their influence at strategic moments can be critical to achieving policy goals. Some studies have identified three main factors that, combined, can generate a "policy window" for an innovative entrepreneurial idea that could serve as a key bargaining point (Kingdon 1984, 165–167; Pollack 1997):

- The identification of the problem
- The proposal of feasible and acceptable policy alternatives
- Political changes (alternations of political parties in the legislature, upcoming elections, and the like).

The confluence of these three simultaneous processes could possibly lead to a viable alternative to policy deadlock.

What Are the Characteristics of a "Good" Formal and Informal Agenda Setter?

The formal agenda setter has to have a thorough understanding of the rules, the anticipated policy outcomes, and the strategic behavior of the major actors involved in the decision-making process. However, institutional power is often already assigned to the agenda-setting bodies and recognized by all participants from the very beginning. Concepts in Practice 5.2 offers an example of the power of formal agenda setting and the way in which it was used in Latin America to align development policy outcomes with presidential mandates.

CONCEPTS IN PRACTICE 5.2

The Power of Formal Agenda Setting: Using the Presidential Veto to Make Policy in Uruguay

Traditionally, the ability of the president of Uruguay to influence lawmaking has been considered weak. While the president can veto a law passed by Congress, it is possible for the legislature to override such a veto, albeit with a three-fifths majority. Therefore, the conventional wisdom was that, when there was consensus, Congress would be able to get its way because the president's ability to stop legislation could be circumscribed.

However, this understanding of the relative power of the president and Congress does not take into account the agenda-setting power of the former. The president of Uruguay is not only able to veto legislation, but also to make 'amendatory observations'—that is changes to a bill after it has been approved by Congress. The implications of this amendatory power are that, in effect, the president has conditional agenda-setting power that enables him or her to alter final legislation. The president effectively sets the agenda by proposing to Congress an amended version of the law, which can then be approved by a simple majority. Therefore, if Congress is better off accepting the president's amendment by a simple majority rather than overriding the veto, which requires a three-fifths majority, the president can influence policy outcomes through her agenda-setting power.

The agenda-setting power of the president of Uruguay was clearly evident in the passage of the Five Year Budget Bill (2000–2004), which saw the president significantly modify the act with respect to tax policy, salaries, the school curriculum, benefits, and funding. As Congress faced a 30-day deadline to pass the new bill and a supermajority is required to override the president's proposals, support to drop the president's proposals was sufficient only to eliminate 6 of a total of 34 amendments. In short, by setting the agenda, the president was able to significantly modify the final outcome of the policy-making process.

Source: Tsebelis and Aléman (2005).

Unlike the formal agenda setter, the *informal agenda setter* requires less clear and more eclectic skills, and his or her influence or power may vary. Studies have attempted to identify a set of basic features: the person usually possesses considerable authority as a policy expert or negotiator, patience and other skills necessary for navigating a complex institutional landscape (Kingdon, 1984, 188; Pollack 1997, 126). Influential policy networks of technical experts, coupled with incomplete information available to the political representatives, have often led to legislation proposed and passed without any amendment from legislators (see the Philippines case study on procurement in appendix C for further elaboration).

As Concepts in Practice 5.3 will now show with respect to the election of Abraham Lincoln in 1860, the roles of informal agenda setting and issue manipulation have long been effectively used by political entrepreneurs to further policy goals.

CONCEPTS IN PRACTICE 5.3

The Power of Informal Agenda Setting: Using the Issue of Slavery to Get Elected

Sometimes being able to identify an issue that resonates with voters but is neglected by the establishment can help propel a seemingly marginal or extreme candidate into office. During the 1850s, attempts to dislodge the Democratic Party from power in the United States resulted in failure because the party had solid electoral support from both northern farmers and cotton planters in the South given its support for free trade, making it easier for these groups to export goods to Europe. As a result, industrialists (in the North) were isolated in their support for tariffs and hence protection from their European competitors.

How were the Democrats dislodged and the Republicans, under Abraham Lincoln, brought to power? Abraham Lincoln was able to use the issue of slavery (agenda setting) to divide the Democrats' coalition. Following the Missouri Compromise of 1820, the issue of slavery had become increasingly important to parts of the electorate for a variety of reasons (for example, westward expansion, the rise of the abolitionist movement, and so forth). By emphasizing this issue during his election campaign, Lincoln was able to create a new winning coalition that pitted northern farmers and industrialists against southern planters. In this way, by setting the electoral agenda, Lincoln was able to win the election of 1860. The U.S. Civil War of 1861–65 resulted in the abolition of slavery across the United States.

Source: Riker (1981).

Agenda Setting as a Strategic Tool for Policy Making: A Note on Positivist and Normative Angles

So far, we have argued that agenda setting intermediates the aggregation of individual preferences in collective choice, bypassing cycles. In addition, and perhaps more important from the point of view of the general development practitioner, agenda setting is a *strategic tool* for pursuing policy or political goals.

Normatively, agenda setting as a policy tool can be used for both "good" and "nefarious" purposes. In some contexts, skillful manipulation of formal rules or the use of informal channels of political influence and communica-

tion can block any attempt to advance pro-development reform and act against positive change.

As will now be seen in the case of election rigging in a post-Communist context, framing and manipulating the issue of the fairness of the electoral process, by preemptively making allegations about the motives of election monitors, can detract from the real question of whether elections were held in a fair manner in the first place (see Concepts in Practice 5.4).

In other circumstances and institutional settings, a reform-minded agenda setter (for example, the head of the committee on rules or budgets in the national legislature) or a talented policy entrepreneur who manages to substantively influence the agenda at the right time can be crucial for pro-development policy change.

The Philippines case study in appendix C will illustrate in greater detail the key importance of agenda setters for the overhaul of the corrupt public procurement system in the Philippines. Despite unfavorable conditions for the passage of a bill targeting the vested interests that had blocked previous attempts at public procurement reforms, change agents skillfully located and co-opted a potential agenda setter—the chairman of an influential com-

CONCEPTS IN PRACTICE 5.4

Agenda Manipulation in Competitive Authoritarian Elections

Nondemocratic regimes rely on a combination of coercion and persuasion to remain in power. In particular, competitive authoritarian regimes need to become adept at persuading the public that their rule is beneficial and better than any alternative the opposition can offer.

For example, in a recent election, opposition groups were allowed to monitor voting irregularities and even publish their findings through the electronic media. However, in anticipation of the opposition's possible allegations of ballot irregularities, rumors were circulated before the election that the opposition was planning to publish a list of alleged irregularities that it had already manufactured. Thus, when the opposition parties promptly published their list of irregularities after the election, some media outlets questioned the speed and the authenticity of the findings. The regime managed to diminish the credibility of the opposition's initial charges of voting irregularities and shifted the debate (agenda) toward the trustworthiness of the opposition rather than the tactics of the government.

Source: Schatz (2008).

mittee in the legislature (Committee for Public Works). Taking advantage of the absence on a particular voting day of members of Parliament opposed to reform, the agenda setter pushed the bill to the floor and managed to circumvent entrenched interests while acting within the prerogatives and legal constraints of his position.

Summary

Policy outcomes are not always a reflection of the mobilization potential of large groups or majorities. Because of cycling, it is possible for strategically minded agenda setters, with either formal or informal power, to influence the decision-making process to further their agendas. Understanding how agenda setting works in a specific decision-making context is, therefore, critical in knowing how and under what conditions certain reforms may become feasible. Considering the dynamics of agenda setting in the design of new institutions is undeniably important.

Exercises for Chapter 5: Collective Choice and Agenda Setting

Exercise 5.1: The Agenda-Setting Game[8]

The facilitator explains the steps involved in the Agenda-Setting Game.

Steps in the exercise (time frame: ~25 minutes):
1. Read out instructions (1 minute)
2. Allow participants to read and play game (10–15 minutes)
3. Class discussion (10 minutes)

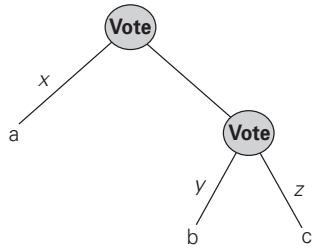
Preparation and materials:
1. Pens should be available to all participants
2. Copies of the Group Briefing handouts
3. Copies of the Head Official handout

Procedure:
1. The facilitator explains:
   For the following activity, at each table, you are going to be voting officials from three different districts, and you will need to decide where to build a new bridge. One of you will be the head official responsible for facilitating and recording the votes. Before I pass out the handout that includes the detailed briefing for the activity, please decide who the head official will be at each table. Once you do that, go around the table to indicate if you are in District A, B, or C. I will now go ahead and distribute the handouts.
2. The facilitator goes to each table and hands out Exercise 5.1, the Group Briefing handout, to all participants. In addition to this handout, the person selected as head official also receives Exercise 5.1: Head Official Briefing handout.
3. The facilitator asks the participants to read the detailed briefing and invites them to ask questions about the task at hand, if they have any.
4. The facilitator gauges the rate of completion of the assignment and gives participants a 2-minute warning so that the activity can wrap up within its allotted 10-minute time frame.
5. The facilitator asks the head official from one of the tables to report out the result of Scenario 1, then asks another table to report out the result of Scenario 2, and a third table to report out the result of Scenario 3. Then the facilitator poses the following questions for an overall group discussion:
   - How did the head official's agenda affect which outcome prevailed?
   - What, if anything, does this tell us about the role of institutions?

After the class game, the facilitator explains the logic of agenda setting by providing the technical explanation for agenda setting (Duch 2009, 1).

"How do committees decide? How do decision-making procedures influence outcomes?

Assume a set of alternatives and a set of committee members. It's simple if there are two options. If there are three alternatives, *x,y,z,* we might imagine a process such as

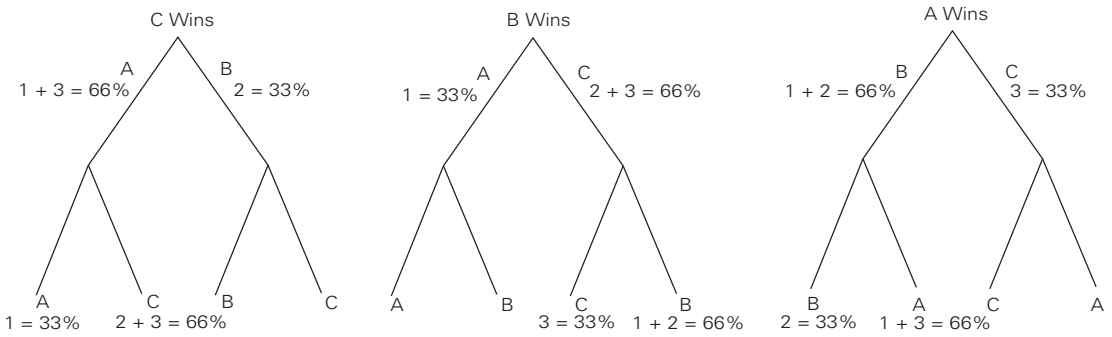


We describe processes such as these as *binary agendas* as at each stage of voting the choice is between two options. For example, at the first stage we consider whether we want to adopt *x* or not. The number of terminal histories is at least the number of alternatives, and each alternative is associated with at least one terminal history." (ibid, 2009, 1–2)

Three alternatives: A, B, and C, and three voting blocs of equal size in the city council. The preferences for the bridge construction project are ranked as follows:

Bloc 1 (33 percent): A > B > C
Bloc 2 (33 percent): B > C > A
Bloc 3 (33 percent): C > A > B

Here are the diagrams for results depending on the voting sequence:[7]



Exercise 5.1: Group Briefing Handout

You are officials in three different districts and must decide on where to build a new bridge. Decision making is by majority voting. That is, a decision can be made only if more than 50 percent of the officials vote for it. Furthermore, decisions are made using pairwise comparisons: that is, any two alternatives are put to the vote at any one time. There is a head official running this meeting who *does not vote* but sets the agenda. Each district represented has only one vote even if there are multiple officials from each district. Thus, for example, if District A has two people at your table and District B has three people, both districts still have only a single vote.

You represent one of the three districts (Districts A, B, or C) and would like to see the bridge built in your district. Failing that, you would rather see that the bridge is built in the adjoining district to yours. This means that

- District A officials prefer A>B>C
- District B officials prefer B>C>A
- District C officials prefer C>B>A.

The head official conducted an initial vote, and based on the preferences of each district, no location obtained a majority as each location has an equal vote (33.3 percent support).

For a proposal to be accepted and pass the 50 percent plus threshold, two of the three groups must actually vote in favor of the proposal.

The head official at each table will announce a legislative agenda with three different scenarios. Each scenario will have two stages. In the first stage, all districts will have the opportunity to vote between *two* possible locations. In the second stage, the winning location of the first stage will be up against the remaining location.

Exercise 5.1: Head Official Handout

1. After all participants at the table have reviewed the Group Briefing handout, explain that there will be two rounds of voting based on three scenarios.
2. Explain that you will read out the voting scenario so that participants can decide how to vote.
3. Remind them that if there are multiple officials present from one district, that district still has only a single vote.
4. Record the first-round vote results.
5. Conduct the second-round vote.
6. Record which location wins for Scenario 1.

Once this has been done for Scenario 1, repeat the process for using Scenarios 2 and 3.

Scenario 1

First-Round Vote: Vote between District A and District B.

What is the outcome of the first round?_____

Second-Round Vote: Vote between the [district that won in the first round vote] and District C.

What is the final outcome? _____

Scenario 2

First-Round Vote: Vote between District A and District C.

What is the outcome of the first round?_____

Second-Round Vote: Vote between the [district that won in the first round vote] and District B

What is the final outcome?_____

Scenario 3

First-Round Vote: Vote between District C and District B.

What is the outcome of the first round?_____

Second-Round Vote: Vote between the [district that won in the first round vote] and District A.

What is the final outcome?_____

Notes

1. In fact, agenda manipulation can ensure that the "best collective outcome" does *not* become policy.
2. "I'll let you write the substance and you let me write the procedure, and I'll screw you every time." See Regulatory Reform Act: Hearings on H.R. 2327 Before the Subcommittee on Administrative Law and Governmental Relations of the House Committee on the Judiciary, 98th Cong. 312 (1983) (Patty and Penn 2008, 2).
3. For purposes of clarity, a majoritarian system is one in which public decisions require the consent of at least 50 percent plus one of voters.
4. The name comes from Marquis de Condorcet, a French philosopher who, in 1785, wrote a treatise entitled *Essay on the Application of Analysis to the Probability of Majority Decisions,* where he defined the concept and explained for the first time the paradox of social choice and preference aggregation.
5. An "ideal point" refers to the policy desired by a certain actor, and any departures from it decrease his or her utility or overall gain.
6. Defined as a situation in which one actor (the agenda setter) has information that other actors do not possess.
7. The game and diagrams illustrating the "paradox of voting" are adapted from Poole (2011), http://voteview.com/paradox_of_voting.htm.
8. *Source:* (Duch 2009) and (Poole 2011) .

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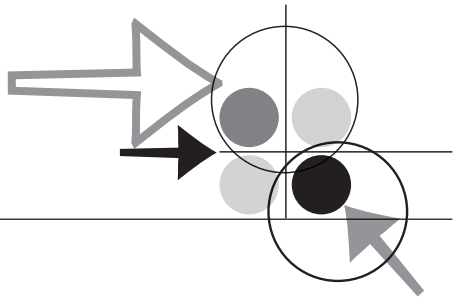


CHAPTER 6

Delegation Problems and the Principal-Agent Relationship

Accountability implies a well-functioning relationship of delegation among citizens, politicians, and bureaucrats. Voters elect representatives and expect them to fulfill the policy mandate for which they were elected. Politicians enact laws and regulations but leave the implementation to bureaucracies. As chapter 2 suggested, mismatched incentives of these actors in fulfilling their tasks on any leg of the accountability triangle generate delegation problems. In turn, the noncompliance of delegates with the tasks of their mandate is consequential for public good delivery. Whenever politicians or bureaucrats shirk their duties, without adequate monitoring and penalties, corruption and poor governance thrive.

More pragmatically, to achieve an outcome—say, the realization of a development project or a reform target—the actors concerned with reaching this goal, known as *principals*, must often delegate tasks to those who can help implement the objective, referred to as the *agents*. Given the need for delegation and the fact that the interests of principals and agents do not always fully converge, a host of "principal-agent problems" arise, particularly the possibility that agents will shirk their duties. For example, bureaucratic and political agents do not always have incentives to allow their principals to scrutinize their use of taxpayers' money, even though the country may have passed free-

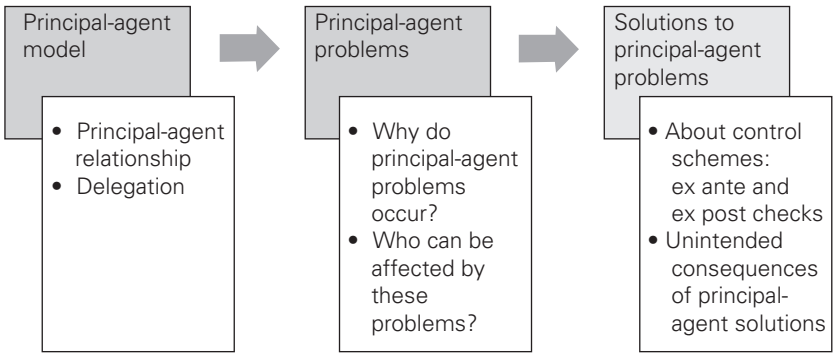
dom of information legislation that gives citizens the right to do so. As a result, some agents actively obstruct the effective implementation of these laws.

In general, the principal-agent problem, as the key analytical backbone of delegation, is very helpful in understanding a wide variety of relationships, including those between legislators (the principals) and bureaucrats (the agents); voters (as principals) and politicians (as agents); members of civil society or political party organizations and their leaders; employers and employees. Delegation and principal-agent relations are at the heart of political, bureaucratic, and social accountability. The position in the delegation chain and the scope of information about the task to be performed generate the sets of incentives for actors. But as we all know, delegation processes occur in all sorts of organizations. Political parties, civil society groups, or coalition leaders often entrust member recruitment, treasury tasks, or organizational expansion to agents. In these cases, shirking has negative consequences for the collective action potential of these groups and acts as a constraint on joint efforts to achieve policy change.

This chapter introduces readers to the challenge of delegation, to issues surrounding the principal-agent relationship, and to the different types of institutionally induced incentives (sanctioning and monitoring) that can sometimes mitigate conflict of interests between the two (see figure 6.1). Therefore, the chapter provides a basis for diagnosing the delegation challenges inherent in many projects and public policy-making contexts.

The central dilemma that this chapter addresses is how to get the politician or bureaucrat (the agent) to act in the best interests of voters and citizens (the principal), when the former has an informational advantage and interests that diverge from those of the latter.

FIGURE 6.1 Delegation and Principal-Agent Conceptual Map



Source: Authors.

Objectives of Chapter 6

By the end of this chapter, readers should be able to do the following:

- Understand the reasons for delegation, along with its potential benefits and pitfalls
- Describe various strategies for monitoring and sanctioning agents
- Recognize how the competing agendas of principals and agents may make one or the other more receptive to reform goals
- Learn to explore analytically the relationship among political institutions, collective action, and principal-agent problems and solutions.

Delegation

Principal-agent relationships are inextricably related to the concept of *delegation:* that is, the resolution of a boss (the principal) to transfer consulting, decision, or implementation power to a worker (the agent). Given private information that favors agents and gives them incentives to shirk their duties on the mandate given by the principal, political economists have attempted to find answers to several theoretical questions. Why delegate in the first place?

Why Do Bosses Willfully Give Up Control and Delegate?

The classic answer of delegation focuses on knowledge discrepancies between the principal and the agent. It is argued that actors who are more knowledgeable about the operational context will make better choices. More recent theoretical accounts focus less on the better outcome or better choice and more on how delegation can make "the outcomes *less risky"* (Bendor and Meirowitz, 2004, 294). The information and expertise about specific policies that the agent possesses or acquires can hedge against the risk of random shocks that could prevent the busy or less informed principal from achieving her target. Under conditions of uncertainty over how exactly policies will translate into outcomes, for instance, principals are likely to delegate tasks to agents, irrespective of how risk averse or risk prone they are. As the distance between the outcome uncertainty known by the bureaucracy, on the one hand, and by politicians, on the other, increases, delegation is more likely, and the mandate will be broader (Epstein and O'Halloran 1994, 1999; Bawn 1995). The risk rationale is central to the relationship between politicians as principals and bureaucracies as agents (Bendor and Meirowitz 2004, 294). Uncertainty over their own electoral fortune also makes incumbent political princi-

pals more likely to protect their bureaucratic agents from future interference. Thus, *political uncertainty* is also crucial to the nature and scope of the delegation mandate (Huber and Shipan 2006, 269) (Moe 1989).

Given that the delegation problems are inherent in a principal-agent relationship and occur when agents have an informational advantage over their boss, it is important to ask, Who will the principal trust enough to have as his or her agent? Bureaucrats know more about policy implementation than politicians. From the point of view of the executive and the incumbent political party, however, irrespective of their technical expertise and competence, not all bureaucrats are equally trustworthy. In empirical tests, given equally qualified agents, principals will choose the one that is the closest ideologically to them because principals care not only about "objective" competency but also about the realization of their own electoral agenda (the "ally principle") (Huber and Shipan 2006). The mandates of agencies (that is, bureaucratic units) often depend on the partisan game. The delegation mandate is likely to be narrower and leave less policy discretion to the agents in cases in which the policy preferences of politicians and bureaucrats do not converge. In situations of high policy conflict between the legislature and the executive and divided government, the delegation mandate contains less bureaucratic autonomy and less policy discretion, as politicians fear divergence. Now, let us see in more detail how and why delegation happens.

How Does the Process of Delegation Occur?

Once principals have selected an agent, they also have to choose both *the degree of discretion* (how broad or narrow and how generic or specific the agency instructions should be) and *the estimate of the probability that the agent will shirk and get caught*. The precision with which the principal defines the tasks to be completed by the agent establishes the limits of action or the scope of the delegation mandate.

There are many cross-national studies of the principal-agent problem and the degree of policy discretion given to agents (measured as the level of detail in statutes or laws defining the authority and jurisdiction of bureaucratic agencies). The main findings can be summarized as the following:

- Presidential systems seem to be able to control bureaucracies better than parliamentary systems.
- Agents will have more limited discretion in an environment characterized by high policy conflict, high legislative capacity, and no bicameral

polarization, as well as when the legislative majority cannot rely on non-statutory factors.

- Coalition and minority governments are more likely to write policy details into statutes, thus restricting the agent's discretion. Anticipating fragility (short time in office), they have incentives to bring the policy preferences of the bureaucrats closer to their political agenda (Huber and Shipan 2002).

In addition to looking at how much policy discretion the agent has, some studies also classify types of delegation according to other criteria (Strøm, Muller and Bergman 2003, 64–66):

- *Direct versus indirect delegation.* In parliamentary regimes, for example, the voters elect legislatures, who then elect the prime minister and the cabinet, who further delegate authority to bureaucratic agencies (a form of indirect delegation). In presidential regimes, both the president and the legislatures are directly elected (direct delegation).
- *Singularity or plurality of agents and principals.* In parliamentary institutions, each agent (implementation unit) corresponds to one principal (the specific cabinet minister directly accountable to the Prime Minister who is accountable to the legislature), whereas in presidential regimes, the bureaucratic agent has at least two principals (the legislature and the president).
- *Competition between different agents' delegation mandates.* To use the same example of the two distinct institutional settings, in parliamentary contexts, there is no overlap between agents' jurisdictions: the ministry of education and the ministry of health do not directly monitor or compete with each other; in contrast, in presidential contexts, some bureaucratic agencies place bids for policy implementation whose winner is selected by the legislature and/or presidency; the system of checks and balances also allows agents to crosscheck mandates.

Sometimes, particularly in settings with strong authoritarian legacies, delegation is rare altogether, because top-level politicians usually make policy decisions and are not always comfortable with bureaucratic discretion or autonomy. As Concepts in Practice 6.1 shows, administrative reform in Iraq, a country with a top-down chain of command, entailed developing a middle tier of bureaucrats who could perform basic tasks such as data collection.

Acquiring a grasp on when, how, and why delegation occurs in organizations and institutions of political representation is an essential step in understanding why problems arise. Now, let's go up a level of abstraction. The following section will introduce in more detail the principal-agent theory and

CONCEPTS IN PRACTICE 6.1

Solving Delegation Problems and Data Collection in the Iraqi Pension System

In 2009, the government of Iraq requested the World Bank's assistance in implementing a unified pension law. The law aimed to increase the number of Iraqis contributing to and benefiting from the social protection programs and creating enrollee contribution systems. However, the World Bank and the Iraqi National Board of Pensions quickly realized that, to achieve successful implementation, the team and the organization itself would have to address serious delegation challenges. A top-down culture in the bureaucracy was prevalent, top bureaucrats were reluctant to delegate tasks, and authority was highly concentrated. Teams and staff worked in silos, and collaboration was rare. Procedures in place were old and inefficient, and managers did not receive constant training.

To address data collection by first addressing delegation problems, reformers created a new pension team (with a mix of members from different offices) that had the task of collecting as much relevant pension data as possible in a short time. As a result, the team was able to come up with new managerial and data-gathering mechanisms that increased efficiency. Besides compiling data on beneficiaries of social protection, they also decided to renew, simplify, and standardize the documentation requirements of the National Board of Pensions, making the rules clear to all. Communication was also improved between pension officers and teams. Moreover, more training helped team members better understand and use new technology and innovative methods to increase their confidence when executing tasks. Overall, these solutions successfully addressed delegation problems, created a managerial middle level that was previously missing, and boosted the organization's performance.

Source: World Bank (2011).

discuss the actors' incentives in play. Having them in mind can help readers think of potential mechanisms for solving this type of constraint.

The Principal, the Agent, and Their Incentives

Technically, the principal-agent relationship is built on two major assumptions: The boss wants an agent who is capable and willing to perform his tasks well - - the voter prefers a competent to an incompetent legislator; and second, the contract is feasible precisely because both parties prefer the superior option of delegating and working to one in which the boss retains full control of all tasks and the delegate shirks his duties (Bendor, Glazer, and Hammond 2001, 237–238). Democracy and elections, for example, function under the assumption that the interests of the citizenry, bureaucracy, and

politicians are fully aligned However, two sets of problems—agency losses and slippage—can emerge (Pollack 1997, 108).

The first problem—agency loss—is inherent in any delegation relationship because principals and agents often have conflicting interests (Kiewiet and McCubbins 1991, 5). For example, voters as principals would like to see their preferred policies enacted by politicians as agents, but the latter also face incentives to shirk and opportunistically maximize rents instead of public goods in the absence of constraints designed to keep them in line with their mandate. The same logic applies to most organizational dynamics between rank and file members and leaders.

Moreover, beyond classic shirking, a second dynamic called *slippage* is induced by the institutional setup and structure of delegation (Pollack 1997, 108). Slippage often occurs when independently of the agent's propensity to shirk or comply, the black box of the decision making process within the agency, or the informal norms of policy implementation, lead to outcomes that are not aligned with the principal's mandate.

What Are the Main Technical Features of a Principal-Agent Model?

A principal-agent model is essentially about how the different tasks, attributes, and roles of the principal and his or her agents shape delegation outcomes. Thus, the principal-agent dynamic involves at least two actors and has several standard features (or core assumptions) (this section builds heavily on Miller 2005, 205–06; Holmstrom 1979; Shavell 1979):

- *Information asymmetry.* This refers to any situation in which one actor has more information than another (the concept will be discussed in detail in chapter 7). Gathering complete information is expensive for the principal, one of the reasons for which delegation occurred in the first place. Legislators do not have the time and resources to actually monitor the daily routine of bureaucrats to make sure that they comply with their mandate. Even if at the end of the fiscal year, specialized legislative committees will assess the policy outcomes of an implementation agency, they will still not be able to clearly understand the major causes of underperformance: is it because of the economic context (for example, a crisis), the lack of coordination among various agencies, or a bureaucrat's inadequate effort?
- *Risk asymmetry.* When the agent's preferences and risks are not aligned with those of the principal (for example, the agent may be more risk

averse than the principal), the agent has a propensity to shirk his or her duties (see the Principal-Agent Game at the end of this chapter).

- *The "unified" principal initiates the principal-agent relationship, by delegating tasks to the agent*. This means that even in cases of multiple principals (several institutional veto points such as parliament, executive, and bicameral legislature, as opposed to just one legislative chamber, for example), the "unified" principal (that is, all the institutional veto points jointly) acts based on an aggregated set of preferences and decides to delegate tasks to the bureaucracy. Individual principals have a mechanism for agreeing on a unified strategy or on the process by which one or all of them will come to a decision.
- *Backward induction and common knowledge*. In many situations, the principal-agent dynamic has a sequential nature. Usually, the principal selects the agent (stage 1); the agent performs an action (stage 2); the principal observes and reacts to the final outcome (stage 3). It is usually assumed that both the principal and the agent know the structure of the game (stages), the payoffs, and the probability of outcomes; and the principal can see the agent's best response function down a "game tree"—that is, how a typical agent will react if the incentives are changed.
- *Ultimatum bargaining*. The principal makes a "take it or leave it" offer to the agent in delegating power to him or her, or not (Miller 2005; Sappington 1991). If the principal can correctly calibrate her offer, she may be able to ensure that the agent has an incentive to deviate only minimally from the principal's optimum preferences.

What Are the Results of the Principal-Agent Dynamic?

If the probability of detecting the agent's shirking is low enough through the monitoring process and the sanctions attached to shirking are insignificant, the principal will choose not to delegate at all, and the agent will shirk if delegation occurs. However, if delegation does take place, the principal and the agent will bear certain consequences and tradeoffs in terms of risk transfer and efficiency—both the principal and the agent may be overwhelmed with their tasks.

The Problem of Multiple Chains of Principals and Agents. In an analysis of a principal-agent relationship in a particular context, it is also useful to think of it as embedded in a broader ecosystem of principal-agent transactions. For example, the legislature is the principal and the revenue administration is the agent in one such mechanism, given that politicians specify the delegation mandate of bureaucratic agencies.

However, the legislators are elected by voters, who confer a certain electoral mandate on them (the platform on which candidates ran) and thus create another principal-agent relationship. If outcome-based incentives such as performance bonuses for tax collectors (the solution to the first principal-agent relationship) lead to coercive and abusive taxation, the negative outcome is transferred to the second principal-agent transaction: the voters will attempt to stop such abuse by formulating claims to their elected representatives, who, in a circular turn, will attempt to shift the incentives of the tax collection agency to limit abuse (again, the first principal-agent transaction). Thinking about the whole chain of principal-agent transactions, rather than analyzing them in isolation, can lead to a more sophisticated design of outcome-based incentives and monitoring techniques, as well as promoting greater accountability of politicians, bureaucrats, and voters.

Who or What Will Make Sure That the Agent Complies with the Mandate? Solving Delegation Problems

The classic solutions to principal-agent problems are related to incentives given to the agent in exchange for committing to perform the tasks with due diligence, as well as to different types of monitoring or control mechanisms to detect the agent's deviations from the mandate conferred upon her by the principal. Because these are broad solutions that apply to the whole range of delegation issues, we will also briefly mention them in the next chapter, which explores information asymmetries as a subtype of larger principal-agent problems.

Incentives to Achieve the Outcome Desired by the Principal

Outcome-based incentives are often used to overcome the problems inherent in a principal-agent relationship. For example, performance bonuses for bureaucrats and high sanctions for low effort are common techniques that encourage compliance with the agent's mandate. In some countries, for example, tax officers receive individual bonuses depending on the total revenue that they manage to collect. However, while outcome-based incentives are central to the principal-agent relationship, they can also generate unintended consequences. As in the example of tax or customs officers, the incentive of individual performance bonuses can lead to individual opportunism (abusive extraction) as well as to a lack of coordination among the many agents (tax collectors), with overall negative consequences for revenue collection and perceptions of procedural fairness.[1]

Monitoring and Control Schemes

The principal can employ several different control schemes to prevent the agent's shirking. However, one should keep in mind that despite all precautions, an agent might at times choose to disobey and avoid delegation problems (Bendor and Meirowitz 2004, 302). Having said that, the control mechanisms can help minimize incentives for the agent to disobey the principal and thus are considered potential solutions for delegation problems that typically arise in development.

Depending on the sequencing of monitoring and sanctioning, there are two types of checks: ex ante checks, which are forms of controls put in place *before* the actual principal-agent transaction takes place, and ex post checks, which are put in place *after* the transaction. Examples of ex ante checks include

- *Contracts.* Detailed contracts that specify the aligned goals of principals and agents.
- *Recruitment screening and selection.* For example, electoral candidates may have to prove themselves first in the political party hierarchy; similarly, the head of a bureaucratic agency is often a civil servant with a long career in the bureaucracy (Kiewiet and McCubbins 1991, 27–31; Strøm 2000; Strøm, Muller, and Bergman 2003).

Ex post control schemes. Oversight is legislators' usual instrument for controlling bureaucratic information. According to *the probability of detection* embedded within the principal-agent relationship, oversight mechanisms can take two forms: (1) so-called "police patrols," in which the cost is high since it requires the principal to perform routine or random observations (monitoring) of the principal-agent relationship; and (2) "fire alarms," in which the mechanism of accountability implies that informed second parties (that is, oversight bureaucrats) or informed third parties (policy consumers or groups of citizens) send signals to the principals about the deviation of the agent (McCubbins, Noll, and Weingast 1987; Lupia and McCubbins 1994).

As opposed to ex ante checks, ex post monitoring occurs either during the delegation process itself (as with the "fire alarms" and "police patrols" discussed above) or at the end of it (through official reports and audits). Some authors argue that such controls are inferior to ex ante oversight mechanisms because some principals might gain from the agent's noncompliance (for example, the political party of the executive, but not the majority party in the legislature in cases of divided government). Therefore, in some cases,

the interested principals have incentives to allow shirking (McCubbins, Noll, and Weingast 1987, Bendor, Glazer, and Hammond 2001, 246).

In addition to the mechanism of detection, *the penalty for shirking* is also consequential for the quality of the relationship. Studies have found that delegation will be equivalent to abdication (the principal simply gives up) when the penalties for lying and shirking are too weak and where agents (bureaucracies) perceive the ideological or policy compatibility and overlap between fire-alarm institutions and current legislators as weak, given that the cost of monitoring and sanctioning is high (Lupia and McCubbins 1994). An example of how some of these controls may help is presented below in Concepts in Practice 6.2.

CONCEPTS IN PRACTICE 6.2

Can Politicians Directly Control Bureaucrats? Evidence from Tax Agency Reform in Argentina

Reforming Argentina's tax collection agency was an important priority for the first Menem administration (1989–95). Legislators in many developing countries face significant hurdles in controlling the bureaucracy. In this context, the control over the tax agency was particularly lax, and its losses were financed through loans. The attempts to correct agency losses and improve the principal-agent relationship interacted with political incentives: members of the parliament faced increased difficulties in maintaining their offices because of political violence and the overall instability of the democratic process. The closed electoral lists rendered the politicians' careers dependent on party leaders, cultivated strong party loyalty, and provided disincentives for particularistic benefits. In addition, elected officials in Argentina operated within cohesive parties that were not responsive to interest groups that could have acted as informed and interested third parties activating "fire alarms" in cases of bureaucratic noncompliance. Therefore, they had to rely on costly routine "police patrol" checks on the tax agency.

This complex context shaped the nature of policy change targeting the legislative oversight of the bureaucracy. Specifically, the tax authority was ultimately reformed to take into account the fact that legislators could not rely on interest groups to alert them to the actions of the bureaucracy; instead, because "deck-stacking" (or cumbersome evidentiary procedures imposed on the agency) was very expensive, politicians chose to focus on streamlining the agency's internal procedures, simplifying the organizational hierarchy, and reducing the general organizational costs of oversight such as auditing and hearings. Therefore, even though interest groups were less likely to be able to incentivize individual legislators to alter the behavior of bureaucrats, legislators could more easily and directly monitor the activities of the tax agency.

Source: Eaton (2003).

Ex post mechanisms have two major categories of effects on the principal-agent problem that shape the scope of the mandate that the principal gives the agent (Huber and Shipan 2006):

- *The substitution effect*. Strong ex post monitoring will give incentives to the politicians to write a more discretionary statute of delegation (Huber and Shipan 2002; Bendor and Meirowitz 2004).
- *Political Uncertainty*. Uncertainty about the future preferences of the politicians (due to changes in the legislature after elections) requires the right balance of ex ante and ex post auditing mechanisms so that politicians can 'lock in' their policy preferences. Generally, if current politicians fear that their successors will renege on their preferred policy, they will be more willing to grant bureaucrats less discretion when delegating (Moe 1989). It is also important to keep in mind that the type of monitoring tools chosen by the principal induces strategic behavior on the side of the agent (Huber and Shipan 2006, 260–269).

In general, monitoring is less onerous when there is close ideological proximity between bureaucrats and governments. According to the ally principle—that is, the degree of policy conflict between politician and bureaucrats—if the policy-ideal points of the principal and those of the agent converge, delegation will be more extensive.

Some studies also argue that monitoring effectiveness and the type of monitoring devices differ significantly between parliamentary and presidential regimes. In parliamentary regimes, prime ministers (acting as agents) are often screened intensely by the legislatures, and they have already gained their reputation by climbing the incumbent party ranks. Therefore, strong ex ante checks are in place. In contrast, presidential regimes often bring in an agent (the president) who is an outsider and with whom the principals in the legislature might not be well acquainted. In presidential regimes, ex post checks (such as impeachment procedures or referendums) prevail as mechanisms of ensuring compliance with the mandate (Strøm, Muller, and Bergman 2003).

As many of the chapters of this handbook emphasize, the slippage or agency problems among citizens, politicians, and bureaucrats do not depend exclusively on the quality of monitoring or the particular incentives adopted. Like everything else in the political-economy universe, principal-agent relations do not exist in an institutional void. The incentives to shirk or not to shirk also depend on a host of other contextual rules of the game that may completely alter the initial intention of policy designers. For in-

stance, one of the most common recipes recommended by international donors for reforming corrupt and inefficient tax administrations was the creation of semiautonomous revenue agencies to replace the more conventional central tax offices. Not surprisingly, evaluations of the performance of such organizations across Latin America and Africa showed mixed results: they were not a delegation panacea and worked as intended only in contexts characterized by strong political commitments (Minh Le 2007). Again, synergistic, complementary institutions matter for the final development result. Therefore, the practitioner should develop a holistic understanding of the institutional web of the policy-making environment before acting.

Finally, since collective action is at the heart of development and the guiding principle of our narrative, how do delegation and better bureaucratic accountability relate to the ability of citizens to mobilize? What constraints do principals or agents place on the space and capacity for the collective action of voters? Concepts in Practice in 6.3 suggests one of the many potential theoretical answers.

Analyzing Principal-Agent Dilemmas Using Game Theory

Some of the basic intuitions of the logic of delegation can be conceptualized through a simple game. Before a discussion of the details of the game, it is critical to introduce a new solution concept—*backward induction*.

Backward induction is a method for solving games in which there is a limited number of moves and players make decisions sequentially (Shor 2005). First, one has to identify the optimal or best strategy of the last player, and then work 'backwards' determining the optimal strategy of the second last player, etc., until the optimal strategies of all players have been worked out (ibid).[2]

For example, let us look at a game in which an agent (who has already been appointed to a policy-making position by taxpayers) is assumed to be solely concerned with maximizing her private income. She has a choice over whether to use the position either to maximize her income by being corrupt (rent maximizing) or to minimize her income by being honest (rent minimizing). Given these preferences and choices, it might seem as if the agent will always choose to pursue a rent-maximizing course of action.[3]

CONCEPTS IN PRACTICE 6.3

Principal-Agent and Collective Action

If politicians determine the rules that govern the civil service—for example, the level of bureaucratic professionalism and the degree of transparency in the budgetary process—then it becomes possible to understand under what conditions politicians have an incentive for ensuring that the civil service is an efficient organization as opposed to being simply a mechanism for distributing jobs to supporters, with scant regard for the quality of public service provision.

Using a large dataset, the authors of one study found that the existence of programmatic political parties—that is, those that do not rely on patrons to organize voters but can instead be held directly accountable by voters—is much more likely to favor a transparent and efficient civil service than parties that depend on patrons to deliver goods to core voters (such parties are beholden to the demands of patrons for private goods).

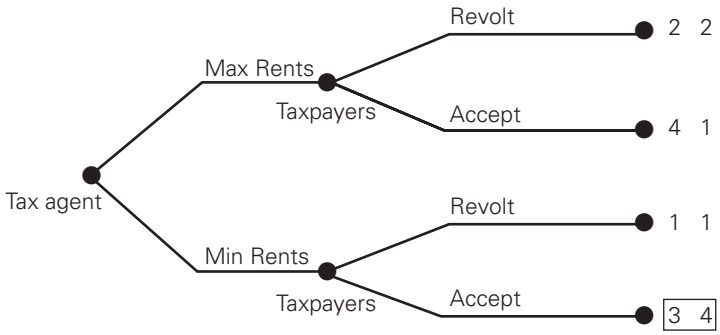
In short, if voters can overcome collective action problems directly and hold political parties to account for the management of the civil service through programmatic party organizations, higher standards and less corruption may be the outcome. If, however, political parties are beholden to patrons, then narrow clientelistic concerns will dominate resource allocation. Thus, who the politician's principal is (voters or patrons)—which itself depends on the outcome of collective action (can voters organize into programmatic parties and keep them programmatic?)—determines the nature of the principal-agent dynamic, as well as the overall quality of service delivery.

Source: Cruz and Keefer (2010).

However, what if the agent can potentially be removed from office by taxpayers who have the ability to detect rent extraction and punish any agent who engages in such an activity? In this case, an agent who is more concerned with keeping her position will have an incentive to pursue a rent-minimizing agenda because she faces a trade-off: stay compliant and keep the post (payoff of 3) or try and rent maximize and eventually get caught and removed from office (payoff of 2).

In short, by looking down the game tree, agents can anticipate the reaction of the taxpayers to their different strategies (rent maximize; rent minimize) and can, therefore, select the strategy that will make them better off in the end. Thus, backward induction can be used to find the solution for this type of game (known as the "subgame perfect" Nash equilibrium) (see figure 6.2).

FIGURE 6.2 Decision Making in a Sequential Form Game



Source: Authors.

Summary

The need to delegate tasks to politicians and bureaucrats can have significant effects on the implementation of a project's objectives because of the potential conflict of interest between principal and agent. Understanding the logic of principal-agent delegation and the tools that might, under certain conditions, mitigate this conflict is therefore a critical component of a good political-economy analysis. Grasping principal-agent dynamics makes it easier to identify some of the implementation challenges, to think about informational discrepancies between actors and groups in society and the unintended consequences of delegation, and to explore attempts to remedy the consequences. By understanding the components and logic of a principal-agent relationship, the development practitioner will be able to do the following:

- Make better-informed decisions about delegating tasks within his or her organization
- Introduce the most effective monitoring and incentive mechanism within concrete institutional contexts
- Recognize entry points for reforms (that is, who is more likely to have incentives aligned with the reform goals: the principal or the agent? Why?

Exercises for Chapter 6: Principal-Agent Theory, Delegation, and Accountability

Exercise 6.1: The Principal-Agent Game

The facilitator explains the steps involved in the Principal-Agent Game.

Steps in the exercise (time frame: ~40–45 minutes)

1. Read out instructions (1 minute)
2. Allow participants to read and answer (5–10 minutes)
3. Collect responses, tally responses, facilitate group discussion (10 minutes)
4. Class discussion (10 minutes)
5. Technical explanation (10–15 minutes)

Preparation and materials

a. Envelopes to be placed in the middle of the round table (one at each table)
b. Pens should be available to all participants
c. Copies of the Instructions handouts
d. Copies of the Answer Sheet
e. Copies of the Key Questions handout
f. Facilitator instructions

NOTE: There are three different scenarios (one for each separate table). If there are only two tables, then Scenarios 1 and 3 should be used. If there are more than three tables, one or more of the three scenarios can be used again.

Procedure:

1. The facilitator reads aloud the following instructions:
   I am going to distribute instructions and an answer sheet. Read the instructions and answer the questions on the answer sheet. Once you have read the instructions and completed the answer sheet, place your answer sheet in the envelope in the middle of the table. DO NOT WRITE YOUR NAME ON EITHER DOCUMENT and MAKE SURE NO ONE SEES YOUR ANSWER. Keep the instructions handy for our follow-up discussion. I will give you about 5–10 minutes to complete this.
2. The facilitator distributes the Instructions handout and Answer Sheet to all participants. **See Note above on the three scenarios**.
3. The facilitator gauges the rate of completion of the assignment and gives participants a 2-minute warning so that the activity can wrap up within its allotted 10-minute time frame. As part of the 2-minute warning, the

facilitator reminds participants that they should not write their names on the answer sheet; when they have finished, they should put their answer sheet in the envelope in the middle of the table.

4. The facilitator explains:
   I will come around to collect the envelopes with the answer sheets and tally your responses. At the same time, I will give you a handout that includes two Key Questions. While I tally the responses on the answer sheets, please go ahead and discuss at your tables the two questions on the handout. Spend approximately 10 minutes in this discussion.
5. To tally the votes, the facilitator uses a blank Answer Sheet and notes for each option the total number of votes.
6. The facilitator walks around the room among the tables in a nonintrusive manner and pays attention to what is discussed. The facilitator notes a few comments from the tables that he or she can highlight as part of the transition to the technical explanation portion.
7. The facilitator gives the participants a two-minute warning to wrap up their discussion.
8. The facilitator explains:
   Now that you have played the game and had a chance to discuss with others at your tables some of the key underlying issues, let's find out the results of your individual decisions.
9. The facilitator announces the results and poses the following questions to the entire group:
   1. How many of you were surprised by the entire group's final tally?
   2. If yes, why?
   3. If no, why?

Exercise 6.1: Instructions Handout 1

You are an extremely busy executive working in a field you are passionate about. You have several important projects whose deadlines are all coming up. You know that if you were not under a time constraint, you could complete all the projects yourself. Given the time constraints, you have the following choices:

1. Try and complete all the projects yourself, doing a satisfactory job overall.
2. Delegating one project to an assistant, allowing you to complete all the other projects extremely well but forcing you to accept whatever quality outcome your assistant produces.

You know that your assistant is an extremely competent employee who wants to impress you, as she will soon be up for promotion.

Exercise 6.1: Instructions Handout 2

You are an extremely busy executive working in a field you are passionate about. You have several important projects whose deadlines are all coming up. You know that if you were not under a time constraint, you could complete all the projects yourself. Given the time constraints, you have the following choices:

1. Try and complete all the projects yourself, doing a satisfactory job overall.
2. Delegating one project to an assistant, allowing you to complete all the other projects extremely well but forcing you to accept whatever quality outcome your assistant produces.

Your assistant is new, so you are unsure of how well he or she will be able to complete the project. However, it is relatively easy for you to monitor the work, so that if he or she seems to be falling behind you would know almost immediately.

Exercise 6.1: Instructions Handout 3

You are an extremely busy executive working in a field you are passionate about. You have several important projects whose deadlines are all coming up. You know that if you were not under a time constraint, you could complete all the projects yourself. Given the time constraints, you have the following choices:

1. Try and complete all the projects yourself, doing a satisfactory job overall.
2. Delegating one project to an assistant, allowing you to complete all the other projects extremely well but forcing you to accept whatever quality outcome your assistant produces.

Your assistant is extremely incompetent. He or she was hired only because he or she is a relative of the big boss upstairs. If the assistant does a bad job, there will be no consequences for him or her.

Exercise 6.1: Answer Sheet 1

Please indicate below, by ticking (√) the box next to the appropriate action, what you would like to do. PLEASE TICK ONLY ONE BOX.

Do all the work yourself	
Delegate some of the work to your assistant	

Briefly explain why you decided to pursue one action rather than the other.

Once you have completed your answers, put them in the envelope in the middle of the table.

Exercise 6.1: Answer Sheet 2

Please indicate below, by ticking (√) the box next to the appropriate action, what you would like to do. PLEASE TICK ONLY ONE BOX.

Do all the work yourself	
Delegate some of the work to your assistant	

Briefly explain why you decided to pursue one action rather than the other.

Once you have completed your answers, put them in the envelope in the middle of the table.

Exercise 6.1: Answer Sheet 3

Please indicate below, by ticking (√) the box next to the appropriate action, what you would like to do. PLEASE TICK ONLY ONE BOX.

Do all the work yourself	
Delegate some of the work to your assistant	

Briefly explain why you decided to pursue one action rather than the other.

Once you have completed your answers, put them in the envelope in the middle of the table.

Exercise 6.1: Key Questions Handout—Group Discussion

In your groups, please discuss the following questions:

1. What are the main reasons people are giving for the action they have taken?

2. How does the information you have on the way in which your assistant was selected and your ability to monitor him or her affect your answer? (If applicable)

3. How does the information you have on the way in which you can monitor your assistant's progress affect your answer?

4. What does the example suggest about the importance of information asymmetries in determining decisions to delegate?

Notes

1. U4 Anti-Corruption Resource Center, "Revenue Administration and Corruption," http://www.u4.no/themes/pfm/Revenueissue/revenue5.cfm#7.
2. Shor, M. 2005. "Backward Induction," Dictionary of Game Theory Terms, Game Theory.net, *<http://www.gametheory.net/dictionary/ url_of_entry.html>* Web accessed: 6/18/2012.
3. Inspired by the congressional dominance literature as summarized in (Muller 2003, 386–405).

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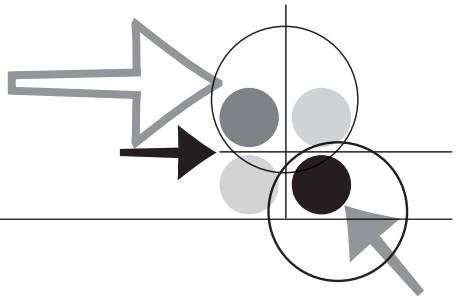


CHAPTER 7

Causes and Effects of Information Asymmetries in the Policy-Making Process

The role of information in fostering pro-development collective action is crucial. *Information asymmetry* refers to any situation in which one individual, group, or actor has some information that another actor does not possess. Significant information asymmetries among voters, politicians, and bureaucrats can lead to ineffective representation and undermine the ability of voters to monitor and sanction noncompliance through elections. The magnitude of information asymmetries varies widely around the world. For instance, the 2005 Latino Barometer opinion survey found a large percentage of respondents agreeing with the statement that "politics is so complicated that people like us often do not know what is happening." The variation across countries was also substantial, ranging from 40 percent in República Bolivariana de Venezuela to 69 percent in El Salvador and 68 percent in Paraguay (Taylor-Robinson 2010, 15).

Information problems are not confined to developing countries only. Significant information asymmetries characterize all electorates in all countries. Studies done in the United States, for example, show that the Gini coef-

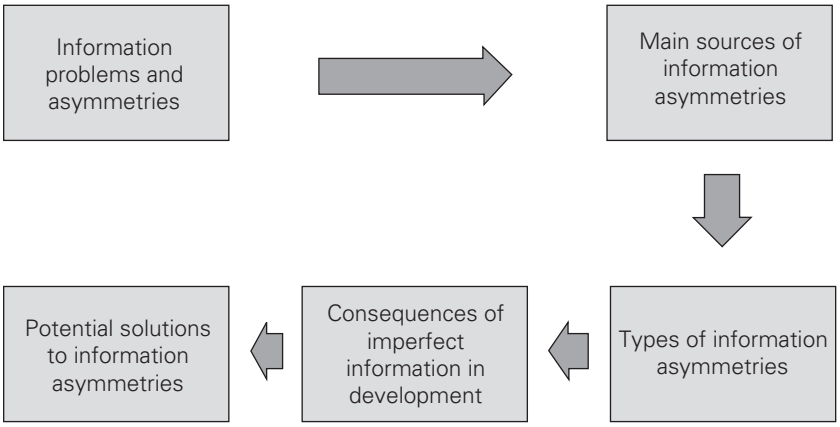
ficient of the distribution of political information across U.S. voters is around 0.60. This indicator takes values between 0 (indicating equally distributed information across all voters) and 1 (indicating that only one person knows what is going on in policy making) (Converse 2000, 333). In the absence of strong technologies of political commitment and monitoring, this information asymmetry significantly reduces effective collective action and leads to less accountable forms of political representation.

Despite persistent information asymmetries, in some contexts well-functioning institutional mechanisms of monitoring and precommitment (politicians' ability to commit to a certain course of action in the future) can substitute for this gap and make sure that development is not entirely derailed. As a political columnist has suggested, "Never overestimate the information of the electorate, but never underestimate its intelligence" (Mark Shields, cited in Converse 2000, 331). In other contexts, attempting to correct information asymmetries can have unintended consequences and can even hamper pro-development collective action. This chapter will explore in greater detail the complicated and often nonlinear relationship between information asymmetries and collective action.

Chapters 3 and 4 showed how collective action capabilities and the institutional context can determine the ability of different stakeholders to translate their latent preferences into actual policy outcomes. However, because policy is made by politicians and bureaucrats (whose interests may only partly align with those of voters), it is important to consider how they strategically use information flows and gaps to garner support, get elected, or get promoted. To be sure, some participants in economic or political markets simply have more information than others. For example, bureaucrats may know the true cost of providing a publicly financed good and service, but voters and elected officials may not, thereby providing an opportunity for bureaucrats to push for a larger budget than is justified by their outputs. Even if laws and regulations clearly establish the procedural blueprint for budget formulation and approval, some ministries or bureaucratic agencies may have greater informational resources that give them advantageous bargaining positions in a given institutional environment. Thus, even when institutions function relatively well, actors (as stakeholders) have different degrees of knowledge about the details of the transaction, the process, or the real policy outcome.

Information asymmetries are important to understand because they influence the likelihood of change. Voters or policy consumers need information, first and foremost, to evaluate the performance, motives, or competence of the policy producers. Reformers need to acquire information about other stakeholders with similar policy positions in order to build lasting coalitions. As one of the major ingredients of accountability and effective collective ac-

FIGURE 7.1 Conceptual Map of Information Problems and Asymmetries



Source: Authors.

tion, information that is available and interpretable by all participants in economic transactions—voters, politicians, and bureaucrats—is crucial for development. The availability, transparency, and interpretability of information in the process of policy change can make substantive differences in the final outcome. In fact, under certain conditions, even small amounts of informational correctives can have large effects on development outcomes.

While information is critical, it is not a panacea. Under certain conditions, it may actually increase the divergence of interests between stakeholders and policy makers, if the latter resort to pandering or concealing their true agenda in the short run so that they may remain in power long enough to pursue a private agenda at a later point in time. In other circumstances, as we will see, keeping a low profile, bypassing full contestation, and avoiding a politically polarized environment benefit reform teams. This chapter introduces the concept of information asymmetries as part of a broader family of economic and political market imperfections (see figure 7.1).

Objectives of Chapter 7

The analytics introduced in this chapter will help development practitioners to:

- Understand information problems and asymmetries
- Develop an intuitive understanding of the strategic origins of informational imperfections

- Diagnose the scope and type of information problems within their own policy change process and linking chapter concepts to relevant life situations
- Reflect on the relationship between information asymmetries and collective action in their own work
- Identify the most context-appropriate strategy for correcting such imperfections.

The Political Economy of Information

As noted above, information asymmetries arise when a systematic discrepancy exists between the information available to the different market participants or contractual parties. Simply put, one actor knows more than the others. Producers know more about their own products than consumers, sellers know more than buyers, and employees know more their own abilities in the workplace than employers.

In economics, the earlier general equilibrium theories were derived from three main assumptions: perfect information among market participants in transactions; a complete set of markets (that is, all buyers and sellers were able to trade goods and services with everybody else without incurring transaction costs); and no enforcement problems (contracts are fully enforced) (Arrow and Debreu 1954). In this theoretical universe, institutions and collective action did not matter at all. Supply and demand were solely responsible for market equilibrium. However, as the 2001 Nobel Prize winning team (George Akerlof, Michael Spence, and Joseph Stiglitz) argued, markets suffer from imperfect information problems, which in turn significantly affect the nature of transactions. Because some parties have more information about their own ability to fulfill the contractual obligations, their actions and choices convey some sort of signals to the other market participants. In return, these participants react to such informational cues (Stiglitz 2000, 1444; Stiglitz 2002, 460). For example, when a firm offers a three-year guarantee on an electronic appliance, it signals product confidence to consumers in addition to its commitment to absorb the risk of paying for maintenance if the appliance breaks. The price of the product, per se, does not convey all necessary information (Stiglitz 2002, 468).

Firm managers also have incentives to increase information asymmetries between them and consumers to gain or retain market power. Corporate governance, finance, and organizational design are key domains where managers and firm employees have more information than shareholders and consumers, as well as incentives to perpetuate this lack of transparency. One

of the key theoretical contributions of this seminal body of work demonstrates that markets alone do not give incentives to participants to disclose information about their characteristics and activities in the absence of institutions that oblige them to do so. Therefore, explicitly incorporating information problems into the analysis has changed the paradigm in modern economics.

Similar (if not larger) information gaps apply to political markets as well. Governments and politicians, by definition, know more about their own competence, policies, and regulations than do citizens. In extreme cases, they do not share anything with the opposition or voters. In some countries, for example, the annual budget document sent to parliaments for review has no more than a few pages. In the recent past, several severe financial crises with worldwide development consequences were triggered by governments' lack of fiscal transparency: the 1997 Asian financial crisis or the more recent case of Greece in the Euro Area.

Information problems are much more acute in the case of governments than in the case of firms. Lack of transparency or "sunshine" conceals mistakes, corruption, and abuses of power. Moreover, in economic markets, customers can switch to another product if firm managers use secrecy to cover mismanagement or abuse. In politics, the exit opportunity, especially when the executive perpetuates information asymmetries, is always difficult and often impossible (Stiglitz 2002, 487–488). Information about political representatives' behavior and policies also has distributional consequences. Because in many ways such information is a scarce good, it empowers some groups that have access to it at the expense of others.

We have already suggested that lack of voter information (due to voter characteristics or a lack of government transparency) is one of the most important sources of information asymmetry in politics. Even in developed contexts, lack of knowledge about candidates' characteristics, as well as the manipulation of voters' decisions through political campaigning and advertising, give electoral advantage to special interests that can mobilize more effectively to extract favorable policies through behind-the-scenes lobbying, advertising, and the like (Grossman and Helpman 1996). Given that voters cannot adequately monitor the behavior of politicians in contexts with high information asymmetries, politicians can extract rents with little risk of being sanctioned. Therefore, the informational discrepancies among various stakeholders have profound implications for institutions, accountability relations between citizens and governments, the collective action potential of stakeholders, and ultimately policy outcomes. Let us also recall from chapter 3 that public information and transparency provided by governments to citizens is a public good and the benefits extend to everyone in society (Stiglitz

2008). Precisely because it is a public good, it also suffers from some of the inherent collective action problems discussed earlier, such as free riding. As we will see in this chapter, citizens want government transparency, but sometimes the costs of individual participation for obtaining it exceed the benefits.

Where Do Information Asymmetries Come from? Types of Information Problems

Information problems originate in principal-agent relations, a topic that chapter 6 explored in greater depth. This relationship, which characterizes all processes of delegation (say, from politicians to bureaucrats or from voters to politicians), generates so-called agency problems. Simply put, one of the participants in the transaction (the one who delegates, or the voter) runs the risk of not having the delegatee (say, the legislator representing his or her district) fulfill its obligations. While incentives generated by principal-agent relationships are broader than informational problems, transparency constitutes a crucial component of agency issues.

Two central issues lie at the core of the concept of information asymmetries (Stiglitz 2000, 1447):

- *The problem of selection.* Identifying the characteristics of political participants.
- *The problem of behavior*. Identifying divergent or skewed incentives embedded in the relationship between actors. For a more detailed discussion of monitoring and enforcement, see also chapter 9

Both types of information problems refer to the negative consequences of information asymmetries between two groups of actors (say, voters and politicians). We will now present several examples.

Self-Selection. "Self-selection is the process through which individuals reveal information about themselves through the choices they make" (Rothschild and Stiglitz 1976; Stiglitz 2000, 1450). The typical insurance example of self-selection is the following: an insurance company does not know the real likelihood of an accident for the individual seeking insurance. However, if the latter chooses to purchase an insurance package with a higher deductible than other alternatives available, the insurer can infer from this choice that the individual assesses himself as less likely to have an accident in the short run. As another example, governments often do not know the real economic ability of taxpayers, but for tax purposes, it bases its assessment of their capacity to pay on what it can observe (such as wealth, income, or, as

in medieval Europe, the number of house windows). This process of self-selection in regard to taxation is crucial in developing countries, where governments are less likely to observe the real income of market participants because of large informal economies or undeclared wealth and income. Hence, they cannot impose an effective income tax schedule (Stiglitz 2000, 1451). As Concepts in Practice 7.1 below illustrates, the role of self-selection in bureaucracies can be a powerful factor in shaping organizational outcomes.

Moral Hazard. Moral hazard occurs when one actor has incentives to take a higher risk because he is not bearing the full costs of his actions. Typical examples of moral hazard also come from the insurance market. Homeowners' insurance, for example, generates incentives either to be careless about home safety or, in more extreme cases, to file insurance claims for a loss that never actually occurred. Because insurers cannot monitor behavior adequately, they have to find ways to reduce moral hazard by taking indirect preventive measures (for example, installing sprinklers, in the case of home insurers, or setting up institutions that prevent blatant corruption of politicians, in the case of voters) (Arrow 1971; Stiglitz 2000, 1453; 2001).

CONCEPTS IN PRACTICE 7.1

Individual Characteristics and the Working Environment in Bureaucracies

In large and complex institutions, the ability to realize goals or collective mandates requires the interaction and coordination of a large number of individuals, not all facing the same incentives. The development of an administrative and management system generates incentives for political control (hierarchies). Such mechanisms, in turn, affect who is most likely to rise to the top and make decisions. As Friedrich Hayek noted with respect to the public sector at large, the management of big organizations tends to favor the advancement of those with a relatively unscrupulous "political" personality. Even though these people may not be as technically competent as others, or as cooperative, they are essential to the realization of the organization's goals. Thus, paradoxically, the self-selection process generated by the growth of an organization can undermine its long-term productivity, as resources are diverted to the private agendas of administrators less closely aligned with the organization's mission, than more technically competent and cooperative personality types.

Source: Hayek (1944).

Moral hazard types of information asymmetries characterize all relations between voters, political representatives, and bureaucracies. Voters do not know how the legislators they elect in their district will actually behave in the legislature. Therefore, once elected and "insured" for at least one term of office, politicians have incentives to behave opportunistically, engage in corruption, and deviate from their mandate, in the absence of effective monitoring. While the risky action is undertaken by politicians, often voters are the ones incurring the costs, and the relationship of accountability suffers.

Another example of moral hazard comes from the historical relationship between imperial centers and provincial notables. Let's imagine a feudal world with a center and many vassal kingdoms. If a central government gives authority to local rulers to raise taxes on its behalf, that government incurs the potential risk of making enough resources available to the local or regional rulers to mobilize armies against the center and claim political power. Therefore, the center has often imposed a lower tax rate on the provinces than it would have done in the absence of the moral hazard problem. Voluntarily limiting its own tax-collection capacity has also, paradoxically, limited the military threat posed by its local agents. The Ottoman Empire during its classical age (1453–1600s) is a case in point. Through the "fief system," the sultan had incentives to implement provincial taxes below what he could have feasibly extracted, given the possible armed resistance that provincial elites could have mounted once they had accumulated enough resources. This central dilemma of dual delegation of taxation and coercion also characterized administrations in medieval Europe, Japan, and Persia (Karaman 2009, 692).

Moral hazard problems also characterize more contemporaneous federal arrangements or decentralized institutions around the world. If local or regional governments in decentralized systems anticipate bailouts from the central government in case they overspend, they lack incentives not to engage in overspending in the first place. The incentives, in this case, generate a collective action problem, because subnational units can engage in a version of the tragedy of the commons by "overfishing" the total amount of transfers from the center. Since the likelihood of bailouts leads subnational governments to engage in strategic behavior vis-à-vis the central government, moral hazard problems have profound consequences for the design of intergovernmental transfers.

Correcting moral hazard incentives is not an easy task. Furthermore, attempts to correct moral hazard incentives can create even more serious problems. In an effort to prevent such incentives, for example, health insurance companies set up complex systems to screen for preexisting condi-

tions but in the process exclude many from qualifying for insurance in the first place.[1]

Adverse Selection. Another prevalent form of information asymmetries, closely related to moral hazard, is adverse selection. Adverse selection, to return to our insurance examples, refers to a situation in which the actors who pose the highest risk are also the ones most likely to enter an insurance contract. For example, smokers are more likely than nonsmokers to buy health or life insurance, but, at the same time, they are generally more likely to actually incur the health risks associated with smoking. Therefore, this problem is the "adverse" self-selection of a higher-risk group into the insurance contract.

One of the classic examples of adverse selection made famous by Nobel Prize winner George Akerlof refers to the market for "lemons" or bad used cars (Akerlof 1970). Buyers want a quality product but are not sure if the car they are about to buy is bad or good since they cannot observe and thoroughly evaluate all product dimensions. Therefore, consumers expect to pay an average price that is lower than the real value for a good used car. The sellers of good cars will thus lose in this transaction and have incentives to withdraw from the market. Because only the bad cars stay up for sale, a downward spiral of lower prices and lower-quality products results in a market dominated by bad cars. Eventually, this process could result in the disappearance of the market altogether as consumers are unwilling to pay anything at all for the substandard products on offer.

Adverse selection problems in politics have a similar logic. Assume there are two kinds of politicians: one who is interested in keeping voters happy through policies and another who is running for office just for the high salary, opportunities for corruption, and side payments. In the absence of information about performance in office, reputation, or the like, voters will not know what kind of politician a candidate is. Especially under conditions of high monetary incentives for members of legislatures, it is likely that more candidates from the second group will run for office. Uninformed voters who cannot tell the two types apart will be more likely to vote for an opportunistic candidate, given that they are more likely to run for office, and the overall quality of political representation will go down. This dynamic has important consequences for accountability and the provision of public goods (Mattozzi and Merlo 2007). The process of adverse selection can sometimes make voters accept clientelistic payments or enter patronage networks, as they are skeptical of the overall competence of their political representatives.

The Repertoire of Solutions to Problems of Information Asymmetries

Two possible solutions for correcting information asymmetries in the principal-agent relationship relate to monitoring and incentive pay (Stiglitz 2000, 1454).

Monitoring the behavior of bureaucrats and politicians to prevent moral hazard and adverse selection problems can be done by the media, civil society, and oversight institutions. One example is public account committees (PACs). The ability of bureaucrats to implement public policy without direct oversight can result in incentives for corruption and waste. Oversight bodies that undertake random or targeted audits can mitigate such tendencies. In European countries, the power of parliamentary PACs, whose role is to scrutinize the use of public funds, has had varying degrees of success (Buzaljko et al. 2010). Specifically, countries with more powerful PACs, such as Denmark, waste less public funding than countries in which the powers of the PACs are severely circumscribed, such as Greece. Concepts in Practice 7.2 illustrates a case of bureaucratic oversight in Ghana, where such institutions corrected information asymmetries and significantly improved public finances.

Incentive pay for the agent (that is, incentive pay for bureaucrats or political representatives) is one of the classic prescriptions of civil service reforms. Paying civil servants high wages while also having a clear mechanism for rewarding or punishing bureaucratic performance has sometimes been suggested as a good way to tackle corruption and inefficiency. Singapore pays some of the highest salaries for civil servants and politicians in the world. These salaries, combined with a tough penal system and reward bonuses for delivering long-term economic growth, may be one of the reasons behind the success of Singapore and its relatively low rate of corruption, according to some studies (Behnke et al. 2008).

However, a caveat is in order: as the adverse selection example showed in the case of political candidates for office, high material rewards for politicians can attract the least ideal candidates who do not enter politics to provide public goods and boost development but rather to enjoy the spoils of office. Organizations that solve collective action problems such as political parties or civil society organizations face similar challenges, as their leaders are not often able to gauge the degree of commitment to the group of new adherents to the cause. Selective incentives linked to actual performance in office or in the organization might under certain conditions do a better job of solving adverse selection problems, as they can discourage nonperformers.

CONCEPTS IN PRACTICE 7.2

Taming the Bureaucracy through Broadcasting: The Case of Ghana's Public Account Committee

Ghana's 1992 constitution gave parliament oversight over the executive. To supervise public finances, a public account committee was established. The committee was headed by a member of the opposition and was responsible for scrutinizing public finances, as in most Commonwealth countries (former U.K. colonies).

Formally, the 25-member committee had the power to call for "persons and papers"—that is, all government officials and documents it considered necessary for fulfilling its obligations and effectively scrutinizing the use of taxpayers' money. However, in practice, the public account committee's powers were severely diminished because many members did not feel compelled to attend meetings and the committee's recommendations were not implemented.

Starting in 2005, a concerted effort was made to increase the committee's effectiveness and to ensure that its hearings could be held in public where they would receive media attention. The public account committee began holding public meetings in 2007, and the first such hearing became a major media event. The presence of the media—especially the private media, which did not stop broadcasting when ministers were called to answer potentially embarrassing questions about public financial management—not only ensured high attendance but also led to the uncovering of irregularities in payments and public procurement.

Thus, the use of the media to televise and disseminate information about the actions of the bureaucracy ensured, for the first time, that legislative oversight significantly affected the behavior of the executive.

Source: Sallas-Menshah (2011).

Broader Implications of Information Asymmetries

Information asymmetry problems can have profound implications for the role of institutions. According to traditional paradigms, marginal or incremental changes in information were not supposed to dramatically affect actors' beliefs and equilibria. Nevertheless, because of the major role that information asymmetries play in the strategic interaction of different actors (such as voters, politicians, and bureaucrats), we now know that even small amounts of information can have large consequences for institutional equilibria (Stiglitz 2000, 2002). Because of the significant difference that corrective information can make for markets, firms, and consumers, we recognize that some degree of regulation is necessary for market efficiency (Shapiro and Stiglitz 1985). In political markets, transparency and freedom of information laws, along with demands for increased accountability, can alter sig-

nificantly the relationship between the government (as agent) and the citizens (as principals).

Disclosure or freedom of information laws that oblige public authorities to provide information to the general public are sometimes powerful tools for correcting information asymmetries. Some countries, such as Thailand, incorporated them into the constitution. Others joined the wave of global adopters. Unfortunately, laws on paper are not enough. As we will see later in this chapter, voters and citizens must be able to solve collective action problems and act upon them to keep the executive accountable and solve moral hazard or adverse selection problems.

Correctors of Information Asymmetries: The Role of the Media, Civil Society, and Donors

Lack of information, as well as lack of commitment to deliver on campaign promises on the part of elected politicians, renders accountability relations problematic. Information asymmetries make monitoring difficult and can induce politicians to focus on very narrow constituencies through targeted exchanges as opposed to providing public goods. Alternatively, as the example presented in Concepts in Practice 7.3 shows, solving information asymmetries can incentivize politicians to provide previously undersupplied public goods. Mass media has a crucial role to play in the process. Increased transparency can encourage collective action and public participation built around demands for better performance from the government.

In line with the Indian example, several studies have found newspaper circulation and media freedom to be inversely correlated with the level of corruption and positively correlated with the security of property rights (Adsera, Boix, and Payne 2003; Brunetti and Weder 1999; Ahrend 2002). Countries with more vibrant media seem to have, on average, more accountability, fewer governance problems, and more robust political turnover (Besley and Prat 2001). Furthermore, strengthening the capacity of the media can make it easier for voters and elected officials to control the executive because it helps reveal the "true" character of the politicians with more accuracy.

Sometimes information collected and disclosed by donors or other members of the development community in collaboration with domestic media also had an immediate effect on correcting asymmetries. A famous study conducted in Uganda in 1995 attempted to trace central education spending to the final recipients of funds: individual schools. Shockingly, only around 20 percent of total allocations ever reached them. After the negative publicity following the release of these findings, the government started to share month-to-month information on disbursements to local districts. In addi-

CONCEPTS IN PRACTICE 7.3

Feeding the Starving: The Role of the Media in Generating Incentives for Politicians to Respond to Famines and Flood Damage

India is an ideal case study of how elections and the role of the media can interact to influence officials' incentives to take certain actions. Despite the variation in political competition across the country—with some states more dominated by a single party than others—and wide differences in the availability of local-language newspapers, it is possible to observe how a more competitive political system and a more vibrant media might enhance transparency, affect the actions of elected officials, prevent moral hazard, and make officeholders more responsive or accountable in implementing development policies.

Using data from 1958 to 1992, a study identified the extent to which variations in political competition and the circulation of the local newspapers affected the public distribution of food and calamity relief to marginalized groups most at risk of hunger in times of famine. The study found that representative democracy and the presence of free and independent regional presses were significant factors in ensuring the protection of vulnerable citizens because these elements increased public visibility of relief action or lack thereof.

Source: Besley and Burgess (2002).

tion, as a result of an ambitious national newspaper campaign that followed this first Public Expenditure Tracking Survey, when the same study was repeated five years later, 80 percent of the funds reached their beneficiaries. The school headmasters, acting on this information, successfully claimed their share of development funds whenever they did not fully receive them (Banerjee and Duflo 2011, 236–37; Reinikka and Svensson 2004, 2005).

Paradoxically, in this particular instance, the information-correction mechanism has also led to a rethinking of the entire principal-agent relationship embedded in the process of decentralization that, in turn, contributed to the reversal of the initial reform. The public revelation of dramatic inefficiencies in allocation of the education fund to the localities created an opportunity for bureaucratic agencies opposing decentralization to recentralize. As a result of this new information that became available in 2002, the revised fiscal decentralization strategy significantly restricted the fiscal autonomy of local governments. Until that point, Uganda, together with South Africa, was the leading adopter of decentralization reforms in Sub-Saharan Africa (Eaton, Kaiser, and Smoke 2010, 57–58). The indirect role that increased transparency played in the process of reform reversal sheds light on some of the potential unintended consequences of information correctives. It also calls attention to

the strategies employed by some segments of the bureaucracy that used the newly available evidence to consolidate their position and recentralize.

In addition to the availability of news sources, patterns of media ownership and their implications for overall transparency also matter significantly. Some cross-national studies have shown that state ownership of the media generally correlates with higher corruption (Djankov et al. 2003). Other recent in-depth case studies have analyzed the impact of commercial liberalization of Chinese media on regulatory implementation and argued that this process has helped reinforce the state's legitimacy rather than challenging it (Stockmann and Gallagher 2011). Private media outlets effectively bolstered the state narrative of a proworker bias in judicial cases related to labor conflicts, and boosted the overall confidence in the legal system.

In addition to mass media, civil society organizations have a crucial role to play in promoting transparency. In some cases, the executive has private information that voters do not possess and has moral hazard incentives. In other cases, the government itself lacks the capacity to collect crucial data from citizens that could help provide public goods more effectively. Sometimes, civil society intermediaries provide key solutions to these bidirectional information problems. The government of Bangladesh, for example, responded much more promptly to the floods of 1998 than it did to a similar natural calamity that had occurred 10 years earlier, in 1988. During the 1988 floods, the government attempts to distribute emergency relief, food and water were severely curtailed by a poor distribution network, weak engagement with civil society organizations, and a general lack of information about the specific needs of victims across the damaged areas (Beck 2005, 11). These factors, coupled with pervasive and institutionalized corruption, resulted in a severe misallocation of resources. Shelters were built in sub-optimal locations, and some victims even had to pay rent.

The 1998 floods affected approximately 68% of the country and directly impacted around 30 million people (ibid, 3). Despite a disaster magnitude comparable with the previous episode and higher population densities, the death toll was 60 percent lower. Why? The role of civil society organizations turned out to be critical in facilitating a more effective response to the crisis. First, the NGOs had effective local distribution networks. Second, they were better able to collect crucial and timely information about the victims' needs, especially as the advent of mobile phones and GPS devices facilitated this effort (Beck 2005, 11–14; Young et al. 2000). The government coordinated with thousands of NGOs, took advantage of their information collection and distribution capacity, and finally ensured a significantly better response compared to 1988.

The Role of Technology in Correcting Information Asymmetries

Let us recall the discussion from chapter 4 about the role that major technology shifts have had on institutional change. Technology is increasingly being used to help stakeholders correct information asymmetries, to monitor the provision of public goods and services in a principal-agent relationship, and to solve collective action problems. Many organizations are using technological innovations to oversee public service delivery, to measure its impact on development around the world, and to create platforms and virtual communities of citizens with interests in development issues. Concepts in Practice 7.4 describes how these technologies have been applied to improve outcomes in both developed and developing countries.

CONCEPTS IN PRACTICE 7.4

Using Technology to Monitor the Provision of Public Goods

Some development programs are using cell phones to track whether promised goods have arrived at their destination. Others are using technology on a bigger scale, developing programs like Mapping for Results, which monitors where World Bank aid goes and to whom.[a] Moreover, whether it is to express their discontent or to share their data and exchange their stories, citizens are increasingly using technology to learn, communicate, and solve collective action problems for institutional change. The role of Facebook or Twitter for mobilizational efforts is well established by now. The Arab Spring is a case in point.

Technology also allows better monitoring of agents by principals and the efficient correction of information asymmetries. A recent study[b] presents an analysis of cases from Brazil, Chile, India, Kenya, and Slovakia, where technology interventions seem to have increased the accountability of public organizations, expanded their services, and improved their outcomes. For instance, in Kenya, a free technology platform was created to allow the monitoring of the 2010 constitutional referendum and presented a space for citizens to report acts of violence (by webmail or mobile phones). The platform became so popular that it had 45,000 users.[c] In the case of India, a technology tool was created to track the behavior of political leaders throughout their time in office, showing when and how citizens solicit information from their officials.[d] Another study developed in India[e] shows that using cameras to monitor teachers' attendance could contribute significantly to a reduction in teacher absenteeism. This study financially rewarded teachers who proved, with a camera, their attendance at school. While many factors are involved in increasing accountability, these and many other studies suggest that technology can certainly become helpful in the process of correcting information asymmetries between citizens (as principals) and bureaucrats and politicians (as agents).

a. See http://maps.worldbank.org/.
b. Fung, Gilman, and Shkabatur (2011).
c. See http://www.ushahidi.com/about-us.
d. See http://www.transparency-initiative.org/wp-content/uploads/2011/05/impact_case_studies_final1.pdf.
e. See Duflo and Hanna (2006), http://www.hks.harvard.edu/inequality/Seminar/Papers/Duflo06.pdf.

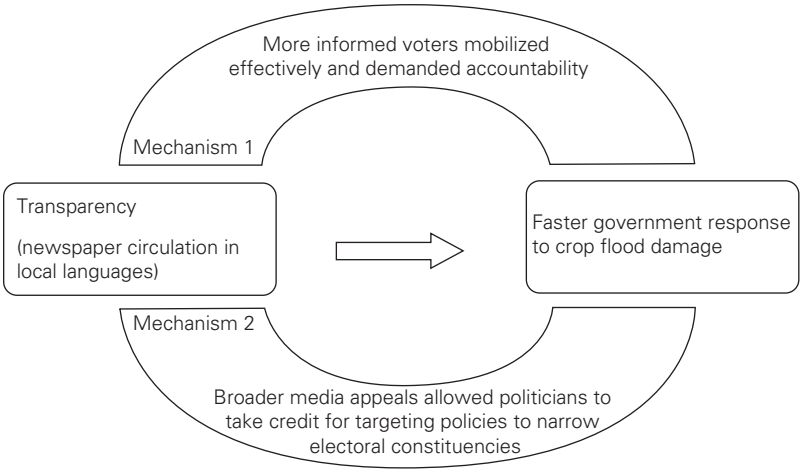
Can Transparency Have Unintended Consequences?

Despite the normative halo surrounding transparency in development circles, in some cases full information availability and policy contestability have created pitfalls. Under certain circumstances, induced transparency (as a corrective mechanism for information asymmetries) may distort outcomes or provide disincentives for collective action and claims making:

- More transparency might cause excessive politicization, with potentially negative consequences for legislative outcomes (Heald 2003).
- In some cases, increased transparency might lead to decreased efficiency of high-quality service providers in the public sector. In general, teachers and health workers unions have mobilized against transparency. Increased visibility of performance may attract more service users. Paradoxically, unlike in the private sector, under conditions of rationing and budget constraints, this phenomenon might put high pressure on high performers and decrease overall efficiency of operation (Gavazza and Lizzeri 2007).
- More transparency might encourage low-competency incumbents who do not stand a chance of being reelected to give up trying to appease voters and pursue a strategy of aggressive short-term rent extraction (Besley 2006).
- Transparency can also induce politicians to keep costly preelectoral promises at the expense of policy flexibility and prevent "good" candidates from running for office in the first place (Geraats 2005).
- Sometimes, a certain degree of secrecy or low visibility may lead to better allocation of resources or reform outcomes, because those that would lose from reforms will not be able to coalesce around a clear and highly visible target and block the attempt at change.
- As a result of transparency laws aimed at correcting information asymmetries, the process of requesting information may entail high costs or risks for the actors involved. It can sometimes allow autocratic incumbents to target those who are seeking information as political opponents.
- Information symmetries between the executive and private firms competing for public procurement contracts may, under certain conditions, cause collusion, with negative consequences for the bidding process (Olken 2007).

Given that the effects of any attempt to correct information asymmetries are contingent on specific contexts and preexisting institutions, the analyst should be cautious when selecting the solution, and explore its potential unintended consequences.

FIGURE 7.2 Influence of Transparency, through the Media, on Government



Source: Authors.

In addition to theoretical or conceptual mechanisms, empirical evidence may also require a careful selection of indicators and interpretation of findings. Figure 7.2 presents an example of increased transparency that might have unintended consequences. Using the example of connecting higher newspaper circulation in India with faster government response to crop flood damage and famines, let us think systematically about the different ways in which we could interpret the results (this point was developed by Keefer 2004, 266, based on Besley and Burgess 2002).

Whereas mechanism 1 in figure 7.2 is aligned with the general hypothesis that increased transparency leads to better development outcomes through collective action, mechanism 2 demonstrates an alternative explanatory route for the empirical finding. This second explanation suggests that, independent of collective action and popular claims for greater accountability, local politicians might want to target the affected political constituencies because of the high policy visibility that allows them to take immediate credit for reelection purposes. At the same time, they can reduce the delivery of public goods or programmatic spending in other "less visible" domains (education, health, or districts not affected by crop damage, for example). Therefore, the causal relationship among indicators of transparency, collective action, and observed policy outcomes should always be interpreted with caution.

Understanding the Nonlinear Relationship between Information Asymmetries and Pro-Development Collective Action

Does transparency or the correction of information asymmetries always facilitate pro-development collective action? Under what conditions do they fulfill that role? Does newly acquired information always bolster the potential of reform groups to mobilize? Analysts and reformers interested in understanding the political economy of information should carefully think about all possible causal configurations and contingencies.

It needs to be emphasized that robust accountability of politicians to citizens or voters entails two components: transparency and collective action. Government transparency by itself does not always trigger public participation that automatically translates into socially beneficial policies. Freedom of information laws on paper, without accompanying mechanisms that ensure that citizens know their rights and can collectively act upon them to solicit information, do not mean much. In fact, sometimes they could even be detrimental in the short run when claiming these rights attracts political retaliation from powerful incumbents. This outcome is most obvious in nondemocratic regimes where the cost of acting on existing laws (often adopted at the pressure of international donors) and requesting sensitive data on, say, public expenditure is prohibitively high for individuals and groups.

Even in the case of democratic polities, it may be difficult for transparency alone to increase accountability, assign individual responsibility, or effectively sanction officials in contexts in which the performance of individual legislators in office is difficult to gauge. If political parties are weak and fail to solve their own collective action problems, it is not easy for elected officials to provide anything other than redistribution to a narrow set of partisan supporters to be reelected, whatever their individual competence. For example, evidence from Benin suggests that increased access to information, through broader radio reception, has not heightened demand for better public education, possibly because of the weakness of the national party system and inadequate complementary mechanisms of accountability (Keefer and Khemani 2011). Increased access to information did, however, induce some behavioral changes.

In general, the relationship between information asymmetries and collective action is under theoretical scrutiny, but it seems to be more nuanced than a simple linear dynamic through which transparency always positively and unconditionally affects pro-development collective action. Synergistic institutions of accountability might be necessary to complement increased transparency for positive outcomes.

The following vignettes tell four different stories about this relationship. The first case shows how citizens mobilized successfully, collected data, and increased transparency. Despite these accomplishments, in the absence of complementary accountability mechanisms, they could not align politicians' incentives with their policy goals. As a result, basic water services remained underprovided in rural South Africa (*collective action and transparency, but no results*). The second story is equally pessimistic and shows that in Peru's legislature a higher degree of transparency and increased accountability of individual legislators to constituencies paradoxically reduced the collective action potential of opposition to the corrupt Fujimori government (*transparency, no collective action, no results*).

The third vignette is more optimistic. Despite death threats, a high-ranking bureaucrat in the Nigerian government decided to disclose key public finance data in national newspapers and thereby increased accountability (*no collective action, transparency, and concrete results*). The fourth instance, also optimistic, shows how a team of Kenyan reformers kept a low profile to avoid open political confrontation with powerful vested interests and was able to change key regulations governing a very corrupt and clientelistic public procurement system (*collective action, no transparency, and results*).

The puzzling variation in the capacity of key driving factors such as transparency and collective action to produce tangible development outcomes shows that, in these four stories, there was no necessary or sufficient condition for reform success. Both transparency and collective action might need to interact with other specific sets of incentives and institutions to generate robust and lasting accountability relations between voters and politicians.

Information, Collective Action, and Water Access in Rural South Africa

A project initiated by a civil society organization in a small South African municipality involved local governments, tribal elders, and citizens in an exercise meant to facilitate community assessment of water services and demand policy action from the state agencies responsible for implementation (Hemson and Buccus 2009). The community first participated in training workshops to learn how to use scorecards and then collected actual information on water sources, conditions, and access throughout the municipality.

Empowered by the newly acquired information, the community appealed to the local officials who were initially interested in the project, recognizing that the local council would have never obtained these valuable data without this ambitious effort of community mobilization and collective action. De-

spite this first enthusiastic feedback, however, the election time was approaching, and internal divisions within the African National Congress (the incumbent party) created competition between two tiers of local government. Therefore, to avoid signaling incompetency to the upper tier, an elected official blocked the dissemination of the data showing problematic water management, and the problems of water services were never addressed. In this case, although effective collective action led to information correction, the outcome was suboptimal, because of electoral incentives and lack of robust political accountability.

Transparency and Collective Action—Trade-Offs in Peru's Legislature

The Peruvian Congress under Fujimori provides a counterintuitive story in which the correction of information asymmetries and increased capacity of voters to monitor the performance in office of their political representatives led, paradoxically, to weaker collective action among the opposition parties and, as a result, to the political dominance of a corrupt party and head of state (Carey 2003). This vignette reveals the benefits of nonlinear thinking that would a priori suggest that transparency and information asymmetries automatically solve pro-development collective action problems. In 1997, at the advice of the Inter-American Development Bank, the Peruvian Congress bought an electronic vote-counting machine to replace hand counts prone to mistakes and irregularities. Initially, legislators opposed the technological upgrade, fearing that their votes would be on record. Ultimately, with buy-in from the incumbent party, the machine was purchased, voting began to be recorded, and the media took full advantage. Newspapers and TV stations began to report on the performance in office of individual legislators (number and type of bills, for example).

Paradoxically, close to the year 2000, when Fujimori's party had a narrow majority in parliament, this technological upgrade that increased transparency also gave individual politicians incentives to cater to their local constituencies rather than to act collectively as a party. All of a sudden, it became possible for voters to identify the extent to which their representative had "brought home the bacon"—that is, provided her supporters with goods and services. As a consequence, the opposition parties became fragmented and lacked discipline and cohesiveness, whereas the incumbent party—under the strong leadership of Fujimori—behaved as a compact voting bloc and locked in opportunities for vetoing all reforms that attempted to dismantle its patronage and corruption. Information asymmetries be-

tween politicians and voters were indeed corrected, but in this case greater transparency came at the expense of opposition legislators and undermined their effective collective action.

Risky Disclosure of Key Budget Information in Nigeria

In Nigeria, in 2004, under conditions of severe budgetary opaqueness and high political stakes associated with the oil revenues, finance minister Okonjo-Iweala started to publish the state-by-state central transfers to the 36 state governments in national newspapers each month. This public disclosure made some of the state governors particularly uncomfortable (Vallely 2006). As a result of her commitment to enhance fiscal transparency, the minister made many political enemies and even received a number of death threats. Similar consequences of information disclosure affect many journalists around the world every day. In cases like this, because of the high individual cost of action and claims making, generating transparency is a public good and suffers from collective action problems. As already argued, if the benefits of information on revenue and spending extend to all citizens but the prohibitively high costs fall on only a handful of individuals (for example, death threats or actual political persecution), the fight for information is not likely to take place. It is precisely in these settings that leadership, activism, and entrepreneurship become necessary to undertake risks and open up the path to the collective action needed to correct information asymmetries. The Nigerian junior finance minister is a good example of these requirements.

Strategic Obfuscation, Collective Action, and Reform in Kenya

The case of Kenya we mentioned in chapter 5 demonstrates that, quite counterintuitively, reform sometimes has better chances under conditions of relative opaqueness.[2] In 2001, during the last days of the Moi administration, the incumbent party was desperately trying to use government funds to finance its patronage networks to maintain power. Public procurement turned out to be one of the main venues of funding the party through the discretionary award of contracts to private firms and individuals. A small circle of Kenyan reformers decided to make the issue salient, increase its visibility, and garner public support. According to the conventional wisdom corroborated by the advice of international donors, making the issue salient and initiating a national debate that would help coordinate unorganized reform supporters from different segments of society would weaken resistance and opposition

CONCEPTS IN PRACTICE 7.5

The Consequences of Information Asymmetries on Development Outcomes

How can we formally conceptualize the persistence of suboptimal equilibria due to information costs? One way is to think of political and market imperfections as leading to suboptimal equilibrium outcomes (that is, "steady states"; see appendix A and chapter 3). A good equilibrium is one in which the outcome is the most favorable possible. Conversely, a bad equilibrium is one in which, for some reason (such as information asymmetries or costs) resources are being inefficiently allocated.

At the most abstract level, it is possible to conceptualize the existence of "good" and "bad" equilibria using the tools of game theory. As the table below shows, two players can choose to either cooperate or not cooperate. There are two Nash equilibria in this game (cooperate, cooperate) and (don't cooperate, don't cooperate). It is not possible to deduce, a priori, which equilibrium emerges. However, if information costs between players affect their ability to coordinate, then it becomes possible to establish the conditions under which the optimal or suboptimal equilibrium is most likely to emerge.

For example, two civil society organizations might benefit from jointly promoting a certain issue, thereby, raising public awareness and mobilizing resources in favor of their agendas (cooperate, cooperate as equilibrium). If only one group tries to promote the issue, both groups will lose out, because the issue will be publicly perceived as lacking significant and joint support. If both groups do not cooperate, the issue will be considered a low priority but will not be neglected as if it were an issue that had been poorly supported by only one group (don't cooperate, don't cooperate equilibrium).

If the ability of these two groups to coordinate their strategies depends on the cost of information they face, then changes in information costs can have a profound effect on whether the optimal (cooperate, cooperate) or the suboptimal (don't cooperate, don't cooperate) equilibrium emerges. For example, each group might need to gather information on the size, mobilization capacity, commonality of interests, competency of the leadership, and influence of the other group before it decides whether to try and coordinate in pressing a common cause. However, obtaining such information can be costly. Therefore, as information costs fall (or rise), the ability of the two groups to communicate effectively and jointly coordinate increases (or decreases); and, in turn, the result increases (or decreases) the possibility that the higher equilibrium outcome will emerge.

	Cooperate		Don't Cooperate	
Cooperate	4	**4**	1	**1**
Don't Cooperate	1	**1**	3	**3**

Source: Inspired from (Cartwright et al 2009).

to policy change. Animated by this impulse, the reformers approached the permanent secretary in the Ministry of Finance.

They were in for surprising advice. The strategy suggested to them was exactly the opposite. Instead of becoming easy targets of political vengeance

under conditions of making open claims, they were advised to proceed as "quietly" as possible through procedural channels. Taking the advice, the group of reformers identified a package of implementation rules (an omnibus bill) that would automatically follow the legislative vote on the annual budget, ensuring the precision and scope of regulatory implementation. Circumventing debate altogether with help from within the bureaucracy, the team—to its surprise—was able to insert the desired amendments as if they were yet another strictly technical regulation. As a result, crucial reforms that would never have succeeded if the issue had been clear and open to contestation to all political actors passed because of strategic obfuscation. Our Philippines case study paints a similar portrait (see appendix C).

As illustrated by the above examples, solving information asymmetries and enhancing transparency can sometimes help or jeopardize reform coalitions and their opportunities to generate change. Information sharing allows coordination, joint action, and trust-building among members of reform teams. Sometimes, as we have seen, disclosure and transparency may have unintended consequences. By understanding this nuanced relationship between correctives to information asymmetry and the potential for collective action, development practitioners can identify the best feasible strategy for achieving results (see Concepts in Practice 7.5).

Summary

Information asymmetries and the incentives they generate are crucial constraints to pro-development collective action and policy change. Problems of missing information, moral hazard, or adverse selection pose serious problems for the accountability of political representatives to voters and often lead to suboptimal delivery of public goods. However, the relationship between transparency and collective action, on the one hand, and development outcomes, on the other hand, is nonlinear and might be contingent on parallel accountability mechanisms, monitoring devices, or institutional features. Accounting for nonlinearity allows practitioners to think in a context-specific way about the theoretical and empirical path leading from transparency to tangible development reforms.

Notes

1. We are grateful to Margaret Levi for this point.
2. WBI and CommGap, "Political Economy Analysis to Action: A Global Learning Event," June 2010, Washington, DC.

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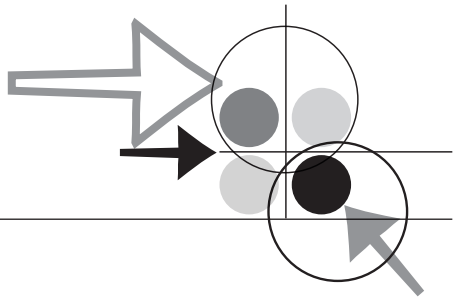


CHAPTER 8

Credible Commitment

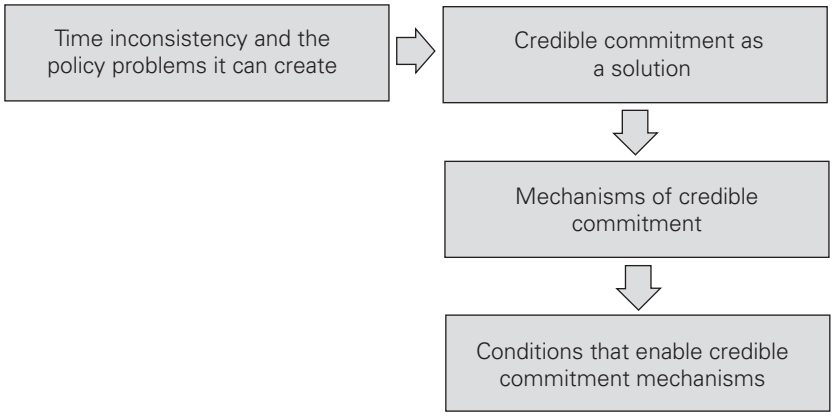
Credible commitment mechanisms that give different actors the incentives to follow through on the actions to which they are formally committed constitute an important ingredient for successful reform (see figure 8.1). Without "tying their own hands," leaders can violate or renege on their own agendas, and voters may be unable to oust incumbents who are pursuing bad policies.

Leaders can signal their credible commitment to specific policies by establishing some form of institutional limits on their power or by following through on their campaign promises.

The following examples introduce some of the conventional credible commitment mechanisms adopted in many countries:

- Control of budgets by parliaments can make it difficult, if not impossible, for leaders to violate key expenditure and macroeconomic commitments.
- An independent judiciary and politically insulated bureaucracies can help monitor and enforce policy commitments and deter politicians from colonizing institutions before or after elections.

FIGURE 8.1 Conceptual Map of Credible Commitment



Source: Authors.

Objectives of Chapter 8

By the end of this chapter, readers should be able to do the following:

- Explain the logic of credible commitment as a solution to time inconsistencies problems
- Think about the connection between collective action and credible commitment
- Explore how institutions may induce opportunities to make credible commitments
- Understand the role of independent third-party monitoring and enforcement
- Link the logic of credible commitment to real-life situations.

The Problem: Time Inconsistency

The concept of "time inconsistency" or "dynamic inconsistency" refers to a change in the preferences of a decision maker that occurs between an initial policy promise and a policy decision that takes place later. Because politicians want to be reelected, their preferences might change over time. Without institutional guarantees, however, it is not possible for politicians today to ensure that they will take the same action in the future. Time inconsistency is often one of the key determinants of whether credible commitment problems exist.

As an example, politicians often campaign on reducing inflation in order to win elections. However, once they are in office, implementing inflation-reducing policies might have politically unpopular consequences, such as increased unemployment. Therefore, even if the initial preferences of the government policy makers were consistent with the goals of reducing inflation, once the time has come to implement them, they may lack incentives to follow through.

One of the classic examples of time inconsistency and credible commitment is quite familiar, drawing on the dilemma of Ulysses in Homer's *Odyssey*. On the one hand, Ulysses and his sailors want to hear the mesmerizing Sirens' song. On the other hand, Ulysses knows that once he hears it, it could be lethal. He would be tempted to swim toward them at the cost of his life. Therefore, Ulysses asks his crew to tie him to the mast of the ship. The hero instructs his sailors not to release him during the song even if, enchanted by the Sirens, he begs to be released. In other words, he designed a mechanism to protect himself from his own incentives to undertake a risky action at a later point in time (Elster 2000).

The concept of time inconsistency can also be applied to the issue of property rights, as it has significant consequences for investment and economic development. "Economic activities often involve time-inconsistent exchanges between the state and private agents" (Frye 2004, 455). For example, a government promises favorable investment conditions for a given company (such as preferential tax treatment or regulatory measures). However, once the company decides to invest, the government may renege ex post on the ex ante promises, despite written laws or agreements that stipulate differently. If the company could foresee the time-inconsistent behavior of the government, it would not invest in the first place (Frye 2004; Diermeier et al. 1997).

What Is "Credible Commitment"?

The concept of credible commitment, closely related to "precommitment," refers to a situation in which politicians (and, more specifically, the government) "tie their own hands" against future discretionary use of state institutions for political or private gains. Given the time inconsistency problems illustrated above, commitment mechanisms block politicians from taking advantage of institutions for political purposes when their incentives may change (say, right before an election). For example, by making the judiciary independent, politicians may limit their own ability to engage in corruption even when they have strong career incentives to do

so. Refraining from such politically gainful but socially detrimental behavior implies the design of strong rules of the game recognized by all actors concerned. Understood as such, credible commitment is a solution to the problem of time inconsistencies.

The creation of an independent central bank is another standard example of a commitment device because it stabilizes inflation rates and inflationary expectations by guaranteeing that populist governments will not engage in overspending right before elections. Similarly, civil service reform in a democratic system that would uproot corruption and clientelism presupposes that legislative parties are institutionally committed not to populate the bureaucracy with their party members when they have the chance (if they win the next elections). The logic of credible commitment can be applied to a whole variety of institutional choices through which politicians tie their own hands in different settings and policy domains: democracy, bureaucratic reforms, fiscal rules, and natural resource governance are just a few examples.

What Are the Mechanisms of Credible Commitment?

External independent enforcement and mutual monitoring are the most obvious mechanisms for ensuring credible commitments (Schelling 1960; Bates 1988), especially when paired with clear rules of election, appointment, and decision making. When all parties recognize such institutional arrangements as "the only game in town" and when violations of the rules trigger sanctions, the effect is to stabilize expectations, reduce the uncertainties associated with the political process, and thus contribute to economic development.

Chapter 1 has already introduced the technical and political-economic dimensions of independent central banks. As Concepts in Practice 8.1 shows, the temptation of elected officials to manipulate the economy before and after elections can help explain why central banks were made independent in the first place.

Other examples of institutions created as commitment devices include the following:

- Independent courts of public accounts or supreme audit institutions
- Independent electoral commissions
- Civil service commissions.

Independence on paper, however, does not automatically translate into de facto insulation from political pressure. Although the presence of such institutions does signal a certain degree of commitment of governments and politicians to not interfering with elections, bureaucracies, or public budget-

CONCEPTS IN PRACTICE 8.1

The Rise of Independent Central Banks

Since the end of World War II and especially since the 1970s, a growing number of countries have granted operational independence to their central banks, meaning that while politicians set inflation targets, the technocrats in the central banks implement them. As already discussed in previous chapters, the case for central bank independence is that elected officials are prone to abuse monetary policy to make voters feel better off just before an election by overinflating the economy. Thus, setting the central bank free from day-to-day political interference is a way of avoiding this outcome.

However, incentives generated by political institutions, and not by purely technical considerations, often explain the decision to commit or not. As some empirical evidence shows, political variables are good determinants of how fast a country adopted central bank independence. Countries with federal systems, in which political accountability and the attribution of responsibility for economic policy making were more fragmented, were among the earlier adopters. Unitary states, in contrast, in which attribution of inflation policy was clearer, were late comers.

In short, according to this study, federal institutions tend to dilute the clarity of macroeconomic tasks and potentially increase political temptations to manipulate monetary policy. Therefore, in such contexts, calls for credible commitment mechanisms were likely to be more imperative and finally led to the earlier adoption of independent central banks.

Source: Farvaque (2002).

ing for political purposes, that commitment might not be especially credible in the absence of robust political opposition in legislatures or adequate checks and balances. There may be nothing to impede a powerful executive from interfering in the work of these institutional devices without incentives to refrain. This dynamic is problematic because it raises the question of how many institutional safeguards are needed to ensure real credibility.

If independence on paper is not enough, what guarantees that the hands of the politicians are genuinely tied? What stops them from using the same institutions to tie their competitors' hands? To quote the eloquent words of Norwegian philosopher Jens Arup Seip, "In politics, people never try to bind themselves, only to bind others" (Elster 2000, ix).

The political-economy literature identifies several core mechanisms that ensure credible commitments. Discussion of some of these mechanisms follows.

Constitutional Limits on Government Power. In 1688, following the Glorious Revolution in England, the establishment of Parliament as an institutional constraint on the power of the monarchy allowed the king to "com-

mit" to the repayment of debts and the security of property rights (North and Weingast 1989).

Guardian Judiciary. A guardian judiciary is an independent body that can prevent the government from violating the rights of investors and asset holders (Landes and Posner 1975). A strong and independent judiciary may enable the government to credibly commit to repaying its debts, as the constitutional power of the judges might be greater than the political incentives the executive might otherwise have.

"Hostage" Mechanisms. A "hostage mechanism" as a means of inducing credible commitments occurs when the government agrees to allow one of its assets to be seized by a third party if it fails to adhere to its promise to other actors (Williamson 1983). Some studies outline what is needed to create an effective hostage mechanism: (1) the value of the asset has to be great enough so that the government has significant financial incentives not to allow its seizure; and (2) the asset needs to be held abroad so that the government has no control over the seizure (Haber, Razo, and Maurer 2003, 25).

An example of a successful hostage mechanism comes from República Bolivariana de Venezuela and has to do with the management of the foreign assets of Petróleos de Venezuela, the country's state-owned petroleum company.[1] The foreign assets function as a hostage mechanism because they can be seized if the government overextracts revenue from the company and fails to ensure the rights of foreign investors (Haber, Razo, and Maurer 2003). As the loss of such assets would hurt politicians and exceed any popularity or rents they would have otherwise obtained from the seizure, these assets act as a credible commitment against expropriation.

In addition, governments can also use a third party to enforce contracts and guarantee the rights of economic actors (Haber, Razo, and Maurer 2003, 26–32). However, the problem with implementing these rules or commitments in some countries (those that are resource dependent) is that they are often under authoritarian rule where a third-party mechanism would be ineffective and a constitution is unlikely to be upheld in the first place.

Multiple "Veto Players" Systems. Another example of credible commitment mechanisms is illustrated in Concepts in Practice 8.2. This example shows how the number and configuration of veto players—different actors who have the power to block policy—can prevent sudden policy switches or reversals induced by shifting political incentives. The number of veto players, however, comes at the expense of a potential shortcoming: the same institutional device that prevents policy shifts and reversals that could be

CONCEPTS IN PRACTICE 8.2

The Importance of Veto Players in Policy Making

"Veto players can be defined as individual or collective actors whose agreement is required for a change in the status quo" (Tsebelis 1995, 289). Two types of veto players are very common in political systems: "institutional veto players" (presidents, chambers) and "partisan veto players" (such as political parties) (Tsebelis 2002). Generally, as the number of veto players (with nonidentical interests) increases, the scope for policy change decreases: that is, the status quo—whether better or worse than a proposed alternative—is more likely to persist. For example, in the United Kingdom there are generally few veto players. The majority in Parliament can pass any legislation it likes without agreement from a strong executive or from any other major actor. Conversely, in the United States the president can veto legislation passed by Congress, and the Supreme Court can nullify (veto) legislation passed by Congress and approved by the president.

Source: Tsebelis (1995).

detrimental to development might also be responsible for blocking pro-development change.

In multiple "veto players" systems, achieving agreement over policy reversals requires the approval of several political actors rather than only one (executive, legislature, regional representatives, the general population through a referendum, and so on). Institutionalizing checks and balances that place limits on policy makers can signal some policy stability in the long run to members of the opposition, to voters, or to private investors. Policy stability can lead to greater investments and potentially to better development outcomes.

Reputational Mechanisms. Reputation has also been shown to fill several roles with implications for establishing the credibility of commitment (Kreps and Wilson 1982; Mazaheri 2008; Milgrom and Roberts 1982):

- They often preserve contracts as well as other relationships of exchange between actors and firms, political parties and voters (North 1990; North and Weingast 1989).
- Reputation encourages or discourages transactions or political candidacies even before the actual occurrence (Greif 1994; Kollock 1994).
- Reputational signals serve as a blueprint for day-to-day interaction among firms, agents, bureaucrats, and other actors. They lock in expectations

that parties or governments will not renege on the initial policy promise under conditions of time-inconsistent behavior.

Reputation is most useful as a mechanism of credible commitment in political-economic contexts with high volatility and risk, high information asymmetries, little third-party enforcement (Kreps and Wilson 1982), scarce capital, and in highly personalized transactions between exchange agents (informal economy) (Geertz 1978).

But How "Credible" Is a Credible Commitment?

Despite the conceptual appeal of "credible commitment" as a solution to the time inconsistency problems that actors face, the degree and "credibility" of a commitment that can be achieved through constitutions or third-party enforcers have been heavily debated. Some scholars have argued that creating multiple institutional veto points is neither a necessary nor a sufficient condition for credibility (Stasavage 2002a, 2002b). Specifically, it has been suggested that for credibility of commitment to be established, control of veto points by different political parties and the possibility of cross-issue coalitions are prerequisites.

Accordingly, with the example of 1688 England in mind, some studies have traced the evolution of interest rates on government debt over time and found that a country's credibility for not defaulting on its sovereign debt was not automatically triggered by the mere institutional existence of the Parliament, as an institutional veto point and a significant check on the power of the monarch. What seems to matter most for achieved credibility, in this particular account, was a cohesive cross-issue Whig coalition of government debt holders, characterized by a disciplined party organization and covering issues as diverse as religion, foreign policy, and finance. In contrast, the majority of land-owning interests represented in the Parliament would have not cared (and were even often against) sovereign debt repayment. By the same token, even if the Bank of England had been created to lead to commitment, as a nonpolitical institution, by itself, it would not have led to credibility without the debt holders' cohesive efforts to block any other actors' interference with its apolitical nature (Stasavage 2002a, 2002b). In 18th century France, the credible commitment to repay debts was never achieved because government debt holders were never represented in the parliament.

These two stories bring us back to the recurrent question of this handbook: how does credible commitment help or hinder pro-development col-

lective action? What is the relationship between the two concepts? In the case of Great Britain, according to this account, the Whigs used well-documented devices to enforce voting cohesion and party discipline between 1688 and 1715. The collective action of this multi-issue coalition managed to enforce the credible commitment of debt repayment. In France, in contrast, the political coalitions that developed in the Assembly after the Revolution were highly unstable, and parties could not discipline their rank and file in pursuit of cohesive policies on government debt (Stasavage 2002b). In this instance, the collective action problem hindered the credibility of government commitment.

Credible Commitment, Collective Action, and Development

The ability of groups to overcome collective action problems can be a critical factor in determining the extent to which credible commitments can exist. Collective action–induced credible commitment can facilitate good governance and hence development in several important ways (Keefer 2011, 3–5):

- *Mitigating rent-seeking*. The ability of citizens to remove low performance office holders depends on the existence of a credible alternative, accompanied by effective electoral sanctions. Collective action is essential in ensuring that citizens can replace incumbents with challengers who can credibly commit to providing public goods, and therefore is the cornerstone for incentivizing rent minimization amongst policy-makers.
- *Altering political incentives*. Politicians lack incentives to enact pro-development policies whenever citizens cannot act collectively to hold them accountable for reneging on their promises and diverting resources towards organized lobbies.
- *Affecting private investment*. Private investment will decrease if individual investors fear that government expropriation of their assets will not result in a collective response from other investors.
- *Restraining patronage*. The absence of a collective action–induced credible commitment can have implications for the provision of public goods. If political parties and individual politicians cannot commit to providing universalistic goods, such as health or education, then one possible outcome is the emergence of "patrons," who act as intermediaries between politicians and citizens (Keefer and Vlaicu 2008).

The Importance of Collective Action–Induced Credible Commitment to Development: What the Data Say

One of the key puzzles in development is why the introduction of competitive elections in new democracies does not necessarily lead to less clientelism, corruption, and rent seeking activities (Keefer 2011). Although stable, well-established democracies do exhibit significantly less corruption than other regime types, this is not the case with young democracies.

One explanation for this puzzling phenomenon is that competitive elections do not, in and of themselves, create incentives for political elites to minimize rents. As noted above, if candidates (especially those associated with new and less established party labels) cannot credibly commit to a set of programmatic or universalistic policies that benefit a wide range of citizens, then voters will not believe any politicians who pledge that they will pursue a good governance agenda.

As Concepts in Practice 8.3 shows, because of a programmatic void, patronage networks filled the postauthoritarian political space in the Dominican Republic and led to inferior development outcomes (Keefer and Vlaicu 2008).

Concepts in Practice 8.4 offers another example of how political parties' lack of credibility in delivering public goods to all citizens affects a large number of developing countries. Many societies are deeply divided along

CONCEPTS IN PRACTICE 8.3

Collective Action and Credible Commitment in the Dominican Republic

The Dominican Republic emerged as a democracy after the elections of 1966, following the assassination of Rafael Trujillo in 1961 and the ousting of a democratically elected leader by a military coup in 1962. The winner of these elections, Joaquin Balaguer, managed to remain in office after two more elections in 1970 and 1974, not because he established a reputation for providing good value for taxpayers' money but by building and exploiting the clientelistic network developed by Trujillo. This network included everything from the distribution of bicycles to village children, to the doling out of public sector jobs. This clientelistic modus operandi did not end with the election of the opposition to power (1978 and 1982). Given that the credible commitment mechanism was still lacking, the opposition similarly relied on patronage networks to remain popular.

CONCEPTS IN PRACTICE 8.4

Political Responses to the AIDS Epidemic and Ethnic Affiliations

AIDS epidemics affect a large percentage of the population in many African countries. Yet some governments are more prompt than others in presenting the contagion as a public health issue and in implementing policies to contain it. Why? Recent studies have found that in countries with clearly defined ethnic cleavages, the HIV epidemic was not perceived as a shared threat to the nation but instead was framed as a threat to a specific group. In such circumstances, the response of the government to the epidemic was slow and indecisive.

Irrespective of the ethnic group in power, institutions based on clear ethnic boundaries tended to shift the blame for the spread of the disease, creating social stigma and ultimately putting in place less effective policies for addressing national pandemics. In contrast, in contexts with more blurred lines of ethnicity, policy advances were more likely. South Africa and Brazil, two countries where the evolution of the pandemic was similar, illustrate this large difference in policy outcomes. Whereas the Brazilian government built bureaucratic capacity and a relatively autonomous agency to address HIV early on in the 1980s, the South African National AIDS Council, a comparable organization, saw the light only in the year 2000, and its authority is still not widely recognized (Gauri and Lieberman 2006; Lieberman 2009).

ethnic, linguistic, or religious lines. Because of their weak commitment to delivering universalistic policies across such cleavages, politicians often send identity-based signals to voters and mobilize them along ethnic or religious issues. This tendency becomes a vicious circle, as deeply fragmented societies fail to cooperate to provide public goods to the detriment of economic development (Varshney 2001; Chandra 2004; Miguel and Gugerty 2005).

Modeling Credible Commitment as a Challenger Game[2]

To further help readers understand the implications of credible commitment to reform and development, this section will present two games that illustrate how credible commitment, or the lack of it, can affect outcomes.

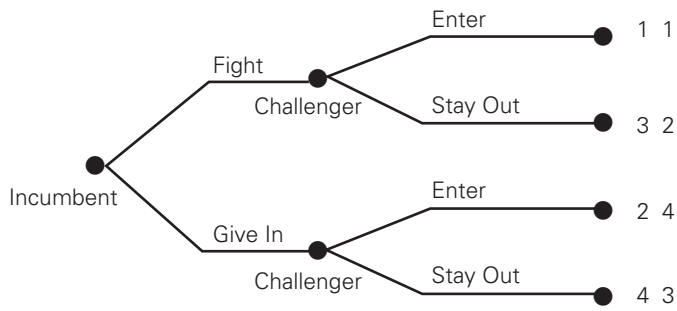
First, consider a case in which two players cannot credibly commit to a specific course of action. Say, for example, that an incumbent politician has two strategies he or she can pursue, given the existence of a challenger candidate. The incumbent can either fight the election campaign (by raising and

expending resources) or give in. Conversely, the challenger can decide either to enter the race or to stay out.

In the normal-form simultaneous-move game below, neither actor can commit, a priori, to a specific course of action. However, given the assumption of complete information, the challenger candidate can anticipate that "give in" strictly dominates (see definitions in chapter 2) "fight" for the incumbent. Therefore, the challenger will enter the contest (the Nash equilibrium is *give in; enter*).

	Enter		Stay Out	
Fight	1	1	3	2
Give In	2	4	4	3

However, what if the incumbent can credibly commit to fighting before the challenger has a choice of whether to enter or not? Say, for example, the incumbent can spend his or her time in office cultivating links with supporters and engaging in preemptive campaign financing. This situation can be modeled as an extensive-form game (below). Here, the outcome associated with the subgame perfect Nash equilibrium[3] is *fight; stay out,* because the incumbent can anticipate that if he or she does not credibly commit to fight (in the first stage), the challenger will have an incentive to enter (in the second stage), obtaining a payoff of 4 instead of 3. However, if the incumbent fights in the first stage, the challenger will elect to stay out (challenger payoff of 2 versus 1). In such a setting, the incumbent is better off than before, because by credibly committing to fight, he or she gets a payoff of 3 instead of 2 (in the first game).



Summary

Many policy change initiatives require those involved in decision making to be able to credibly commit to certain actions. Why should citizens pay taxes

if their governments cannot commit to not expropriating them as private rents? By critically evaluating and understanding the problem of credible commitment, as well as its relationship with the capacity for collective action of various groups, reformers can identify any commitment-related problems they may face and evaluate whether, in light of these problems, the project remains feasible.

Notes

1. http://www.stanford.edu/class/polisci313/papers/MonaldiFeb04.pdf, 2–4.
2. *Source:* Inspired by (McCarty and Meirowitz 2006).
3. For simplicity and exposition purposes, the sub game perfect equilibria do not include off-path analysis.

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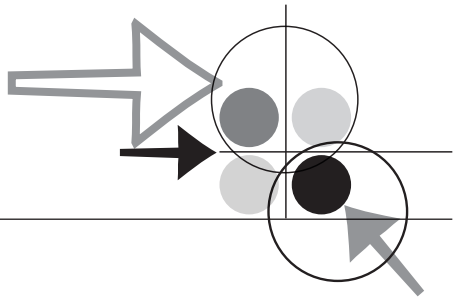


CHAPTER 9

Solutions to Collective Action Problems

Collective action is the engine of change. Reform occurs when individuals and groups act together, share information, and keep politicians and bureaucrats accountable. Pro-development mobilization is not easy, and institutional constraints often act against reform. Lack of information, motivational factors, missing mechanisms for credible commitment, delegation problems in organizations with unaccountable leaders, and institutional manipulation against policy reform all stifle attempts to effectively mobilize and change the status quo.

Fortunately, despite grim predictions, pro-development collective action does happen. Groups manage to mobilize in spite of formidable obstacles. Sometimes they make history. Mohamed Bouazizi, a street vendor in a rural town in Tunisia, became the catalyst of the previously unthinkable Arab Spring; the city of Porto Alegre in Brazil has a vibrant civil society that actively monitors municipal spending and has built more schools in 10 years than were ever thought possible; in the Indian state of Uttar Pradesh, a low-caste political party significantly increased the electrification rate of villages; and a coalition of bureaucrats, nongovernmental organizations (NGOs), youth groups, and leading politicians took advantage of institu-

tional opportunities and reformed a corrupt system of public procurement in the Philippines.

How do good results come about? The honest answer is that nobody really knows why good things happen despite unfavorable odds, but we can do our best to look at a repertoire of classic solutions to collective action problems that have been identified in a very rich and diverse body of knowledge that cuts across all social sciences. Let us see what it has to offer future change agents.

Chapter 3 introduced the logic of the collective action problem and its major implications: the undersupply of public goods, the overuse of common resources, and the general inability of large groups in society to formulate claims for a better development outcome. We have also explored many modes of collective action that we encounter every day: social movements, political parties, interest groups, coalitions, and reform teams.

This chapter will wrap up the theoretical section of the handbook by examining in more detail specific ways in which collective action problems can be solved. The first section will explore some of the organizational and coalitional characteristics, as well as effective institutional arrangements that build and maintain collaborative efforts for public goods. The second section will deal with various monitoring and sanctioning mechanisms, trust, distrust, and selective incentives, and their effect on governance and development outcomes. Finally, the chapter will introduce the concept of leadership as a potential solution to collective action problems.

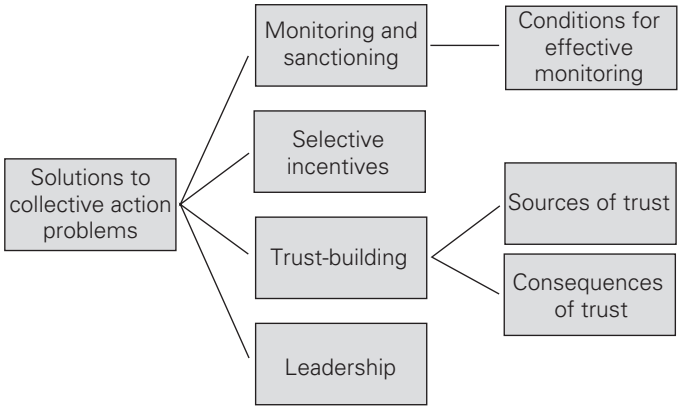
The chapter establishes a basis for helping change agents analytically sort through some of the ways out of key dilemmas that would otherwise hamper the realization of their agenda (see figure 9.1). By improving information flows, cultivating trust and communication among the members of a group or organization, and using different institutional mechanisms of monitoring and sanctioning, reformers might be able to overcome the problems that prevent the provision of public goods and effective pro-development action.

Objectives of Chapter 9

By the end of chapter 9, readers should be able to do the following:

- Understand how different mechanisms can help resolve collective action problems.
- Explore organizational and coalitional features that lead to successful pro-development action.
- Think about potential institutional arrangements that govern effective joint efforts in development.

FIGURE 9.1 Conceptual Map: Solutions to Collective Action Problems



Source: Authors.

- Appreciate the importance of different monitoring techniques, trust building, selective incentives, and leadership, as well as their potential role in resolving collective action problems.
- Be able to link concepts of collective action solutions to real-life situations.

When Do Mobilization and Production of Public Goods Occur?

We know that many successful cases of collective action have taken place despite the chronic misalignment between individual and group incentives postulated by theoretical work. Why and under what conditions does alignment happen? How do communities come together to regulate the use of common resources? How do individuals succeed in effectively mobilizing for policy change in high-risk political-economic environments? What roles do mutual trust, face-to-face interaction, and reciprocity play in facilitating successful collective action? How can organizations monitor and sanction noncompliant behavior of members, correct informational discrepancies, and delegate crucial coordination tasks to leaders?

The three central dilemmas of cooperation described in chapter 3—the prisoner's dilemma, the tragedy of the commons, and the logic of collective action—have been challenged on both theoretical and empirical grounds. Let us briefly review some of the reasons for optimism.

Group Size Matters . . . but Not Always

Chapter 3 argues that the size of the group matters since it is much more difficult to pool risks, preferences, and organizational costs among many citizens as opposed to just a few. Large groups of diffuse citizens are less likely to solve collective action problems than small, more concentrated business lobbies. Theoretically, however, some researchers have shown that the large number does not always hamper collective action, as long as a subgroup of individuals cares intensely about providing a public good, even if all other members are free riders (Hardin 1971, 1995).

Smaller privileged subgroups (sometimes referred to as *k*-groups to indicate that they include only *k* members out of a total of *n* group members, with $k<n$), even as part of a larger and more diffuse group of interests, can solve collective action problems. Why? Because, as the argument goes, the ratio of benefits to costs for some individuals might be equally important, if not more important, than the sheer size of the group and the fact that majorities might not contribute. Concretely, some subgroups in society stand to benefit from providing the good, even without cooperation from other members, as long as they have strong preferences for the good and their individual benefits exceed the costs of the production of a public good or participation in it. For example, business associations have been shown to play a significant role in demanding anticorruption measures, increased bureaucratic accountability, and the preemption of the predatory behavior of the state in many post-Communist countries (Duvanova 2007; Pyle 2011). If we think of lower levels of corruption as a public good that benefits the society at large, then the mobilization efforts of business groups and associations might have positive spillover effects for all citizens in the long run.

Highly repressive autocratic contexts inhibit pro-development collective action because the costs of individual participation are prohibitively high. Often, challengers are killed, imprisoned, heavily penalized, or threatened. Despite such high individual risks compared to potential benefits, popular protests against corrupt politicians and bureaucrats often occur because a small number of activists or groups want change so intensely that the benefits of individual action far outweigh the costs if and when the final goal is reached. We have already mentioned the so-called 5 percent rule: some argue that roughly only about 5 percent of all citizens who would benefit in the long term from pro-development mobilization and protests get involved in contentious collective action. Because of the high costs of participation, the number of activists is usually overwhelmingly exceeded by bystanders (Lichbach 1998). In general, for reformers, identifying a nucleus of *k*-actors with high stakes and preferences who are able to drive the process of change

on behalf of large groups of citizens can lead to a solution of collective action problems.

Effective Modes of Collective Action in Development

Organizations, associations, networks, and coalitions that function well, commit to outcomes, share information, and are accountable to their members constitute effective modes of collective action in development. Mobilization is difficult in the first place, but what happens after it occurs the first time? How is it maintained, routinized, and institutionalized? The main forms or modes of institutionalized collective action are organizations that all of us recognize: political parties, labor unions, NGOs, social movement organizations, business lobbies, and the like. Organizations allow citizens or members with similar policy preferences to delegate the tasks of representation to leaders, activists, and political entrepreneurs to obtain policy benefits.

Chapter 3 has already introduced political parties as aggregators of preferences and costs. Political parties are in no need of introduction. They run for elections on policy platforms and strive to enact laws and regulations favorable to their constituents if they become incumbents. Civil society organizations engage in advocacy, build accountability platforms and coalitions, and partner with other major actors to push reforms forward. Unions aggregate the policy preferences of their members and are often effective in obtaining benefits for them from private employers or the public sector. Teachers' unions in India's Uttar Pradesh, for example, successfully blocked a policy aiming to place the firing, hiring, and absenteeism monitoring of teachers under the supervision of the village *panchayaat* (or assembly). Similarly, in Brazil, well-organized health workers were very influential in shaping the health care reform package, while teachers' unions in Argentina and Mexico mobilized and blocked decentralization reforms affecting education (*World Development Report 2004*, 8).

In some cases, organizations have certain *intrinsic features* that lead to greater success than others in pursuing common goals. Research seeking to find solutions to the tragedy of the commons, for example, studied many collectivities managing common-pool resources and identified some criteria that lead to their effectiveness in solving collective action: the total number of participants (the fewer, the easier the cooperation); the minimum number of contributors needed to initiate collective action; the decision makers' patience with respect to the consumption of the good; the homogeneity of stakeholder preferences, and finally, the existence of committed leaders among group members (Ostrom 1990, 188). These features do not exist

exclusively in the case of collective action for common-pool resource management. Coalitions of political parties in parliamentary systems and reform teams face very similar constraints. They first have to decide on the number of members in the coalition; if parties or reformers want to maximize individual power or take full credit for policies enacted, they will opt for "minimal winning coalitions" that include the smallest possible number of participants (Riker 1962). But besides sheer number of members, power, or electoral credit taking, policy similarity and homogeneity of preferences also matter for coalitional stability. Especially in the case of ideological divergence among participants, coalitions face an informational problem: the uncertainty about future defectors. Therefore, to compensate for such uncertainty, coalition cabinets sometimes invite additional members. These policy criteria thus lead to the creation of oversized ruling or reform coalitions, meaning that they accommodate more members than are strictly necessary for enacting policies. A similar dynamic applies to minority cabinets that have to continually negotiate with other legislative parties, behaving like a de facto oversized coalition (Lijphart 1999, 62–90). Coalition size might come at the expense of reform effectiveness. Because more policy concessions are needed to keep a larger number of members happy, very large and participatory party or reform coalitions could become weak and lose momentum or focus.

Time horizons or the patience of individual members also matters for the stability of the coalition. Although some parties or reformers can afford to wait more than others in the face of upcoming elections, economic crises, or other exogenous shocks, the convergence of time horizons among participants can lead to successful collective action.

However, as we emphasized throughout the handbook, the mere existence of organizations or coalitions that pool costs and preferences does not automatically guarantee pro-development change. Without adequate *institutional mechanisms* that address the constraints discussed in previous chapters, organizations will fail to reach their goals. In a sense, parties, unions, NGOs, cooperatives, coalition governments, and reform teams are all plagued by a second-order collective action problem. Because members delegate decision making to leaders, they face principal-agent risks. The leadership may have incentives that are not fully aligned with the wishes of the rank and file. Furthermore, information asymmetries can lead to moral hazard, adverse selection, or severe lack of coordination among the members of the organization. Without information on free riding and shirking, noncompliant members cannot be sanctioned. They will thus fail to contribute to the joint action for policy change and reform. If organizations do not institutionalize mechanisms through which leaders "tie their own hands" and credibly commit to monitor and police shirking, the potential for collective action

decreases. In the case of legislatures, party weakness, fragmentation, and lack of cohesion and discipline often lead to instability and high policy volatility within the coalition. Therefore, just as in the broader political-economic environment, well-functioning organizations need rules and mechanisms that correct for all these sets of constraints. As the chapter will discuss in the subsequent sections, *good monitoring and sanctioning techniques, adequate selective incentives for compliance, trust building, and leadership assets* are essential for dealing with collective action problems and deriving pro-development benefits.

Institutional Arrangements and Types of Authority That Matter

Mobilization for public goods can occur through several broad institutional arrangements identified in the literature. Sometimes, they feature a top-down model of authority for decision making. Other times, dispersed and multiple institutional centers of authority, connected by policy networks, can lead to effective collective action solutions. Let's explore some of these arrangements:

- *Informal, tacit contracts or conventions.* In these informal arrangements, individuals or groups, following continuous interaction, agree that the long-term benefits of cooperation outweigh the short-term gains of noncooperation. This solution relies on the ongoing interaction among participants that allows for communication, trust, and common expectations of behavior. Organizationally, it may or may not require conventional forms of hierarchical leadership (Lichbach 1998).
- *Hierarchical context, or top-down monitoring and enforcement of sanctions for noncompliant members.* This institutional formula presupposes the existence of mobilizing organizations and leaders who can successfully police shirking and distribute selective incentives to solve the collective action problem. Governments can sometimes fulfill this role successfully; other times, communities find more effective solutions outside the public sector (Lichbach 1998, 167–170).
- *Polycentric governance arrangements.* The literature on the tragedy of the commons emphasizes the specific type and characteristics of institutional arrangements that can lead to increased intergroup cooperation. Instead of thinking about governance systems as *monocentric* (having only one central authority, say, the government or the state), researchers have argued that *polycentric* systems, in which multiple relevant actors play different authority roles in the absence of a central command center might lead to better policy outcomes. For example, in the world of common-

pool resource management, studies of the West Basin water systems in California showed that better outcomes were made possible because many initiative centers were involved in coordinating the regulation of water use. This broad participation, rather than a single peak national agency, brought civil society, businesses, politicians, and bureaucratic units together to coordinate regulation. The creative polycentric arrangement resulted in various legal agreements among producers and the development of innovative technology to increase the efficiency of water consumption (Ostrom 2010, 5–6).

In a similar spirit, other research shows that multiple and less conventional centers of authority for the provision of public goods can emerge through a variety of self-help groups organized around the mistrust of a corrupt state. Hometown associations in Nigeria, for instance, stepped in and provided a minimum threshold of public goods in the absence of a functioning local government. Civil society organizations representing informal miners built networks and coalitions and formulated effective claims against rent-seeking officials and industrial mining companies in the postconflict eastern part of the Democratic Republic of Congo (Fahey 2008). Networks of women's credit groups and self-help organizations successfully provided loans to individual members in Tanzania and Uganda (Gibbon 2001).

Apart from the concentration or diffusion of authority, effective solutions to collective action problems include at least one, and in most cases several, of the following four tools or devices: *monitoring and sanctioning, selective incentives to comply, trust building,* and *good leaders.* These mechanisms are central to well-functioning organizations and coalitions because they help solve principal-agent problems and correct information asymmetries, and they become widely accepted when leaders can credibly commit to using them systematically.

Tools for Solving Collective Action Problems

Monitoring and Sanctioning

Chapters 6 and 7 on principal-agent relationships and information asymmetries introduced the concepts of monitoring and incentives as forms of social controls undertaken to minimize agency costs and preempt adverse selection. This section also looks at monitoring and sanctioning as the main devices for alleviating or solving broader collective action problems. The previous chapters have presented various dilemmas: the tragedy of the commons

(or the common-pool resource problem), the prisoner's dilemma, and the logic of collective action. Let us see if we can find ways to address their motivational and informational root causes.

Discouraging Motivational Constraints and Achieving Coordination. Many convincing findings in the literature show that monitoring and sanctioning are necessary (although not always sufficient) for solutions to collective action. To give a concrete example, in the case of common-pool resource management, effective enforcement of institutional rules of lumber use is highly correlated with successful forest management around the world (Pagdee, Kim, and Daugherty 2006; Ostrom 1990; Ostrom and Nagendra 2006). In addition, among all potential solutions to common-pool resource problems, some studies have found regular monitoring and strict rule enforcement to be more important than any other alternatives (Gibson, Williams, and Ostrom 2005).

Beyond the maintenance of a common good, if we think of the prisoner's dilemma and the tragedy of the commons as metaphors of broader collective action problems that characterize political life, then similar solutions apply more widely. If voters have information and can monitor politicians' behavior or if corrupt legislators lose elections because of underperformance, then the poor can act collectively and achieve development outcomes. Monitoring and sanctioning are linked to most of the institutional constraints the previous chapters explored: credible commitment issues, independent oversight bodies, accountability, information asymmetries, institutional manipulation, and agency problems. Effective organizations, coalitions, and reform teams usually devise ex ante or ex post monitoring devices to make sure that members do not have incentives to opportunistically defect and that leaders do not shirk their duties toward the rank and file. Monitoring detects behavior and is the precondition for the other two concrete tools: sanctions applied to defectors and selective incentives targeted to high-commitment individuals and groups.

Performing the Monitoring Task. Several different options can govern the selection of monitors. External parties such as independent ombudsmen, for example, can make sure that governments hear the voice of the citizens directly. Inside the executive, politicians can monitor the behavior of bureaucratic agencies to make sure that they comply with the policy mandate. Political party, union, and NGO leaders screen new recruits, often offer career incentives, and monitor their behavior within the organization. A community faced with collective action problems can also design self-regulatory monitoring devices. For instance, women's cooperatives in Nige-

ria, Nepali farmers, and artisanal miners in the Democratic Republic of Congo (DRC) have all found creative ways to police organizational and associational borders and ensure that free-riding or tragedy-of-the-commons–types of problems do not arise. The fishermen community in Alanya, Turkey, succeeded in avoiding overfishing partly because it involved the local mayor and police in the assignment and monitoring of fishing sites. But as the vignette from chapter 3 demonstrates, similar communities in Bodrum, Turkey, failed to effectively monitor individual behavior and did not solve the social dilemma that they were facing.

Monitoring the Monitor. Can the monitor be trusted? This is an old philosophical puzzle. Collective action tools, unfortunately, have two inherent problems (Shapiro 2005, 280). First, many regulatory arrangements devised for the purposes of monitoring and sanctioning are also principal-agent relationships themselves. For example, politicians are the principals and monitors of bureaucrats but the agents of voters. If voters lack information and are unable to observe what political representatives do in office, politicians might collude with bureaucrats and engage in corruption; the chain of broken monitoring devices will then undermine accountability. In addition, it is both costly and difficult for an organization to delegate monitoring and sanctioning functions to a third party and to check regularly if the monitors themselves do not shirk or do not favor some members at the expense of others. Second, because the members of an organization or the community incur costs to obtain benefits, monitoring and sanctioning tools for overcoming collective action often induce a second-level (or second-order) collective action problem: why should I bear the costs of a neutral third-party monitor, when I can just wait for the benefits of organizational policing? As Elster (1989) puts it:

> Before a union can force or induce workers to join it must overcome a free-rider problem in the first place. To assume that the incentives are offered in a decentralized way, by mutual monitoring, gives rise to a second-order free-rider problem. Why, for instance, should a rational, selfish worker ostracize or otherwise punish those who don't join the union? What's in it for him? True, it may be better for all members than if none do, but for each member it may be even better to remain passive. Punishment almost invariably is costly to the punisher, while the benefits from punishment are diffusely distributed over the members. It is, in fact, a public good: To provide it, one would need second order selective incentives which would, however, run into a third-order free-rider problem. (40–41; Copyright © 1989 Jon Elster. Ed. *The Cement of Society. A Study of Social Order.* Reprinted with the permission of Cambridge University Press)

The important question, then, for reformers and leaders to answer becomes under what conditions will good and systematic monitoring and sanctioning tools work (Ostrom 2005; Coleman and Steed 2009).

Monitoring and oversight can also have unintended consequences or generate perverse incentives. For example, because excessive oversight can make individuals feel that they are not trusted, organizational members or leaders may alter their behavior negatively, making it more costly to engender cooperation (Frey 1997; Ostrom 1997). In general, however, monitoring and the possibility of sanctioning are essential tools for the correction of information asymmetries pervasive among participants in collective action. In addition, systematic policing and enforcement are ways in which organizational leaders commit to their members that they are solving the problems of free-riding or overconsumption.

Selective Incentives. If good monitoring devices help organizational leaders detect member defection or give the rank and file the possibility of keeping leaders accountable, reward or punishment logically follows.

Selective incentives for individuals and groups are common ways to solve collective action problems, because they reward those who cooperate (positive incentives) or punish those who do not cooperate (negative incentives). Chapters 3 and 7 introduced the role of positive selective incentives in correcting adverse selection problems in an organization. The leadership of an NGO, for example, often cannot distinguish between the different levels of commitment to the common policy goal of the new recruits. Some are there for action; others for very tangible material rewards. As we know by now, information asymmetries (adverse selection in particular) lead to the prevalence of the latter category. This is not good news for any group that wants committed individuals who will not defect opportunistically the first time they can. Therefore, rather than giving all those who joined monetary rewards, it might be wiser to consider selective incentives rewarding good performance and directly incentivizing a high level of policy or reform commitment.

Selective incentives are a widely used tool for solving collective action problems. For instance, by publicly recognizing donors for their contributions, many public and civil society organizations can provide a (nonpecuniary) reward to those who contribute resources to their cause and boost their capacity to promote policies (an example is all the "named" chairs at universities or dinners that political candidates have with donors whose contributions exceed a certain threshold). In the case of coalitions, reform teams, or policy-seeking organizations, loyalty is an important asset, and leaders sometimes secure it through selective rewards to members who prove it.

Some studies have shown that positive (reward) and negative (punishment) selective incentives or sanctions might have different implications for collective action. Whereas positive incentives promote cooperation among a

few members and cultivate an elite "club" of cooperators within the organization, the negative incentives induce unanimous cooperation. In spite of this finding, however, negative incentives also might cause some hostility among group members, which could undermine the cooperation and solidarity that the organization intended to promote in the first place (Oliver 1980).

To give an example of selective incentives at play in a bureaucracy, consider the case of Singapore. Several possibilities have been offered to explain its economic success: one of them has to do with bureaucratic incentives. In Singapore, well-performing civil servants receive some of the highest salaries in the world, but they also face credible and harsh sanctions for the abuse of public office. Furthermore, monitoring civil servants is relatively easy, given the country's small size (Behnke et al. 2008).

Trust, Face-to-Face Interaction, and Communication

What is trust? Trust is a relationship between two parties that involves several critical elements (Levi 1998, 78–79):

- The first is the initial identification of the trusted and an evaluation of his or her trustworthiness: that is, the willingness and capacity to act in good faith with respect to a particular activity.
- The second is that the trust relationship must be maintained through repeated interaction between the two parties in order to confirm the trustworthiness component.

Trust applies to both individuals and institutions. Citizens' "trust" in an institution means that citizens (as principals in a principal-agent relationship) believe that the institutional rules and procedures effectively constrain the behavior of public officials (as agents) and render them competent and credible when acting in the best interest of the citizens.

Trust is essential to solving collective action problems. To act jointly toward the production of public goods or reform, members of a group, organization, or coalition must have some degree of confidence in both the real policy intentions of other members and their capacity to overcome motivational constraints and not simply free ride.

Sources and Types of Trust. There are several families of explanations for the origins of trust (Levi 1998; Rothstein 2000). A cultural explanation argues that trust is closely related to information problems prevalent in society, with costly to fake cultural attributes acting as a signal of which strangers we can trust and to what extent. We trust other members of a social group based on the information we have about their behavior. Because of

CONCEPTS IN PRACTICE 9.1

Case Study: Social Capital and Development

Trying to explain different development trajectories of countries has led some authors to consider the role of social capital—defined as the generalized level of trust and reliable informational exchanges emanating from an individual's social network (Woolcock 1998, 185)—in fostering growth and development. Given that development outcomes are associated with higher specialization and trade between individuals, firms, and government, the absence of trust can impose significant "transaction costs" on development. If, for example, private firms have to expend larger resources on guarding against physical or intellectual theft, then development will be limited.

For instance, Singapore was able to induce rapid socioeconomic development because of strong norms of trust and reciprocity that existed in the small city-state, while many parts of India have been unable to stimulate growth even when financial resources are available.

Source: Woolcock (1998).

different power endowments and the informational flows among various members of society, informational entrepreneurs (political parties, media, and the like) constantly engage in negotiating and communicating ideas about trust and the trustworthiness of groups, individuals, and organizations such as ethnic groups, religious associations, and political parties (Rothstein 2000, 488). Ideology, or the worldview of individual actors, is largely a script of trust relationships in society. Context-specific notions of morality also shape trust in groups by rewarding and punishing cooperators and defectors through a complex array of institutions (family traditions, regional or ethnic rules of behavior, informal honor codes, and religious norms, among others).

In this version of the story, trust can also result from *closely knit networks and associations* of individuals promoting members' loyalty (Levi 1998, 80). Seminal empirical studies have shown that greater participation in associations, or denser "social capital," is strongly associated with higher degrees of interpersonal trust and better development outcomes (Putnam 1993). Concepts in Practice 9.1 provides an example of the connection between trust and social capital, on one hand, and development outcomes, on the other.

Trust can be easier to facilitate when actors have to *repeatedly interact with each other or* engage *in face-to-face communication*. Preexisting passive social networks in the informal economy resulting from daily interaction have served as powerful infrastructure for mobilization in a variety of con-

texts. In 1980s' Iran, for instance, pro-poor movements started and succeeded in Tehran neighborhoods, in which informal vendors interacted in their everyday life, despite lack of organization and financial resources (Bayat 1997). Interestingly, before engaging in collective action, these vendors did not necessarily know each other personally. However, because they saw each other every day over long periods of time and developed passive social networks, they were ready to act when their livelihood was threatened by housing policies enacted by the government.

Is Trust Always Good—Can Distrust Be Healthy? This section briefly addresses the normative assumptions about the inherent desirability of trust, distrust, and their context-specific impact on collective action, institutions, and compliance. It also looks at the virtues and pitfalls of both concepts (adapted from Braithwaite and Levi 1998; Levi 1998, 2006).

As commonly used, *trust* usually has a positive connotation. However, according to some scholars, "Trust is neither normatively good nor bad; it is neither a virtue nor a vice. . . . The act of trusting may have consequences productive for the individual, or not, and beneficial to her society, or not" (Levi 1998; Braithwaite and Levi 1998, 81).

The normative value of active trust or distrust with respect to pro-development collective action depends on specific situations. Some degree of generalized trust in other individuals, organizations, and state institutions can create virtuous circles of cooperation and solutions to collective action dilemmas. The payoffs (or stakes) of the game for individual players are certainly affected by their degree of trust or distrust. In the prisoner's dilemma game, cooperation does not occur primarily because the two participants do not trust each other.

Under some circumstances, a level of distrust among members can lead to efficient and cohesive organizations that solve collective action effectively. Because of severe negative consequences in case of noncompliance, members of some organizations will not have an incentive to defect or betray other members (for example, the Mafia) (Gambetta 1993; Levi 1998, 81). In some contexts, distrust might be somewhat beneficial for development outcomes because it could block the coordination of groups that, if they solved their collective action problem, would have a negative impact on society (ethnic cleansing, for example, or even vested interests that would otherwise join forces and stall development) (Hardin 1995).

Tools of Trust Building. Trust is "a fragile commodity;" it requires long-term investments and repeated interaction between parties and can be relatively quickly dissolved (Braithwaite and Levi 1998, 81, 241). There are, how-

ever, some classic tools for building trust that development practitioners can use to change the stakes of the game and facilitate collective action.

Face-to-face interaction, communication, and talk about common problems have been proven in experimental settings to work well for building trust in small groups. Deliberative democracy, for example, as a form of direct engagement of citizens with policy making can promote understanding of complex issues, interpersonal trust, and possibly cooperation. Although direct talk, communication, and persuasion work well in relatively small groups, their applicability might be limited in broader social contexts because of high transaction costs (Elster 1998, Rothstein 2000, 481). In some circumstances, deliberation may open the door to persuation and manipulation of the public agenda by skillful entrepreneurs. The example of trust and local leadership in Concepts in Practice 9.2 shows how trust can enable political entrepreneurs to implement their own agenda at the expense of their constituents.

Leadership

Finally, good leaders can solve both informational and motivational problems. The puzzle, however, is how to keep leaders accountable to their orga-

CONCEPTS IN PRACTICE 9.2

Leadership, Trust, and Participation in São Tomé and Príncipe

Political participation and deliberation have long been promoted on both normative and instrumental grounds as a means of fostering greater democratic accountability and democratic learning. However, skeptics have argued that such participatory mechanisms may be prone to influence and manipulation by charismatic leaders and powerful interest groups (see chapter 5 on agenda manipulation by political entrepreneurs). In 2004, the small country of São Tomé and Príncipe organized a national forum that offered groups of citizens the opportunity to debate and deliberate major economic issues. Using data from a unique field experiment in which leaders of policy debates were randomly assigned to communities, the researchers showed that the influence of individual leaders was a robust predictor of the policy priorities identified by the discussion group. Therefore, the results of this experiment are striking, as they demonstrate a clear leadership effect on priority setting. These findings suggest that while trust in a benevolent leader might minimize costs of providing public goods and build a more effective organization, trust in other types of leaders may simply make it easier for them to manipulate the agenda to realize their private gains. Thus, the intrinsic power of deliberation to foster democratic learning was certainly exceeded by the power of leaders to shape outcomes.

Source: Humphreys, Masters, and Sandbu (2006)..

nizational members and make sure that their interests do not diverge from their principal. In addition to monitoring, sanctioning, and trust building, leadership is a classic solution to collective action problems.

Traditional collective action problems like the social dilemmas introduced in chapter 3 assume that all group members have the same characteristics with respect to realizing group objectives. Conversely, various members of a group may have different preferences and skills sets. As a consequence of this assumption, there is a possibility that a subset of group members can create an incentive structure that enables the whole group to overcome the problem of collective action. In short, group members can be divided based on their preferences and skills sets, into "leaders" and "followers." The leader(s) of a group can be identified as those who can mobilize, coordinate, and design an organization that can successfully lobby in order to provide collective goods for its members (Colomer 1995, 227).

What types of leaders? Who can be a leader? Concepts in Practice 9.3 provides an example of the public perceptions of different types of leaders in the Democratic Republic of Congo and how this view can potentially affect development outcomes.

CONCEPTS IN PRACTICE 9.3

Leaders in the Democratic Republic of Congo

A study of community leaders in postconflict situations looked at the coexistence of multiple types of leaders fulfilling different tasks in a community. A baseline survey in the DRC, for example, found that villagers preferred a dual leadership structure. According to the survey, respondents believed, on the one hand, that the traditional chiefs should have political authority and that, although community decisions should not be participatory, chiefs should be subjected to some accountability mechanisms. On the other hand, respondents wanted elected development committees rather than the traditional tribal chiefs to take the primary role in managing development funds.

A systematic pattern also emerged with respect to community trust in leadership for allocating development funds: the majority of participants across all four DRC provinces participating in the study tended to trust development committees, followed by village chiefs and then, distantly, NGOs. The balance of authority and trust between village chiefs and village-level elected development committees tilted toward the committees, with the exception of Haut Katanga, where village chiefs were more trusted for managing funds.

Source: Humphreys (2008).

Leadership and Collective Action Problems. Leaders derive benefits from their role as collective action facilitators. These rewards could come, for example, from the provision of a collective good or from the prestige or legacy that he or she may obtain from acting in this capacity. The implications are that groups that might have been unable to overcome collective action problems in the absence of a leader are able to do so, because leaders help coordinate, disseminate information to members, police organizational boundaries, and create a set of incentives that ensure that free-rider problems are overcome and that collective goods are subsequently provided. In a field experiment in Liberia, villagers involved in a community-driven reconstruction program (including the election of local leaders) exhibited stronger social cohesion than other similar communities. The experiment specifically explored whether newly created institutions, including directly elected leaders, promote social cohesion and collective action in a post-conflict context. The collective action capacity was measured through the outcome of a public game that allowed control communities to raise funds for their Community Driven Reconstruction program in Northern Liberia. Despite the fact that this study does not directly evaluate the impact of leaders on public participation, it shows that democratically elected committees with local legitimacy were able to solicit higher cohesion in their localities and better coordination for reconstruction efforts (Fearon, Humphreys, and Weinstein 2009). In other contexts, however, studies of community-driven reconstruction programs showed mixed results and unintended consequences with respect to members' access to leadership positions. For example, an NGO-funded program aimed at strengthening the capacity of indigenous women's organizations in western Kenya led, unexpectedly, to the selection of educated women in leadership positions instead of fostering equality of access for marginalized community members (Gugerty and Kremer 2008).

If the emergence of a leader is a viable possibility, then the next critical question to consider is, Who should be the leader? Ideally, from the perspective of the average group member, the best leader is the one who maximizes the realization of the collective good at the lowest possible cost. However, in practice, candidates for leadership will emerge according to the opportunity costs they face (salary, time constraints, and the like). In some circumstances, change agents may take turns, as leaders at times and followers at others, due to the diverse skill set that leadership requires, in addition to individual costs. A specific group might not be able to incentivize members of a high enough caliber to become group leaders, and, therefore, under certain conditions, leadership may not provide a solution to collective action problems. The rules of selection and succession also matter, since they shape leaders'

power to credibly commit to the members of their group or association that they will not abuse the power or the organizational mandate.

When thinking about leadership as a solution to collective action problems, also consider how leaders can alter the subjective expectations of different groups to maximize their ability to take advantage of political opportunities that may further their cause. It is important for the analyst to distinguish carefully between an objective and a perceived evaluation of the costs of policy change or reform. For example, an objective analysis of the degree of government coercion or repression might show that the government is not open to policy change and is instead able and willing to repress or exclude groups that advocate for change. The subjective perception of mobilized groups might diverge, however (Kurzman 2004). The mismatch between the objective assessment of opportunities for action and groups' subjective perception can significantly affect the individual cost-benefit analysis of participation in collective action. It is the role of an effective leader to mitigate any subjective misperceptions about what the group can achieve.

Conceptualizing Leadership, Trust, and Repeated Interaction through Games

It is easy to model these solutions to collective action problems using some of the substantive arguments made above.

Solution 1: Leadership[1]

Recall in chapter 4 the discussion of games with multiple equilibria. Some theorists (for example, Calvert 1992) use coordination games to illustrate the potential significance of leadership. In the simple game below, two equilibria exist (cooperate; cooperate and unilateral; unilateral). However, it is not possible to deduce from the game which equilibrium emerges. The value added (of good leadership) might therefore be conceptualized as the process by which these players can coordinate on the better equilibrium, (cooperate; cooperate).

	Cooperate		Unilateral	
Cooperate	4	4	1	1
Unilateral	1	1	3	3

Of course, the existence of leadership is not the only mechanism that may allow players to achieve an optimal outcome, as we hope will become apparent from the class simulation.

Solution 2: Long Time Horizons, Repeated Interaction, Trust[2]

Sometimes, if actors have to interact with each other over an indefinitely long period of time, they may have an incentive to behave differently from how they would act if they know they will interact for only a short time. How does indefinitely playing the prisoner's dilemma affect the equilibrium outcomes?

	Cooperate		Defect	
Cooperate	3	3	1	4
Defect	4	1	2	2

In a "grim trigger" strategy—that is, a player cooperates unless the other player defects, in which case the first player will also defect in the next round and every round thereafter—a player has to choose from a stream of (2,2,2,2,2.....) or (3,1,1,1,1.....). Which one is in a player's best interest? The answer depends on his or her discount factor. A discount factor is simply the present value of future payoffs. Generally, the discount factor is greater than zero but less than one. This reflects the fact that is generally assumed to prefer something today to the same thing in the future. For example, one dollar in a year is worth less than one dollar today. Calculating the discount factor allows us to calculate how "patient" the player must be to be incentivized to cooperate indefinitely (don't confess) rather than defect (confess). The result in this case is that

$$2 \geq \frac{3}{1-\delta^2} \text{ and } 2 \geq 3 - 2\delta.$$

Or, more simply, the discount factor satisfies the inequality:

$$\delta \geq \frac{1}{2}.$$

Therefore, the more patient an actor is (the more they value future payoffs from cooperation), the more likely he or she will be to desist from uncooperative short-term behavior.

Summary

This chapter has focused on how a variety of different incentive structures or interventions may remedy the collective action problems identified in chapter 3. While many potential options exist to mitigate these problems, it is important to note that a number of them may have unintended consequences.

Furthermore, given that collective action is itself a public good, the establishment of institutional arrangements to remedy initial collective action problems may give rise to a host of new problems: namely, that the agents, leaders, politicians, bureaucrats, etc., who are responsible for resolving social dilemmas do themselves have an incentive to pursue their own agendas and bring about an additional collective action problem. By understanding the options they have, reformers will be able to identify a range of potential solutions, recognize viable opportunities, and use an appropriate combination of tools.

Exercises for Chapter 9: Solutions to Collective Action Problems

Exercise 9.1: The Prisoner's Dilemma with Different Time Horizons/Institutional Incentives Game[3]

The facilitator explains the steps involved in the Prisoner's Dilemma.

Steps in the exercise (time frame: ~40–45 minutes):
1. Read out instructions (1 minute)
2. Allow participants to read and answer (5–10 minutes)
3. Collect responses, tally Responses, group discussion (10 minutes)
4. Class discussion (10 minutes)
5. Technical explanation (10–15 minutes)

Preparation and materials:
- Envelopes to be placed in the middle of the round table (one at each table)
- Pens should be available to all participants
- Copies of the Instructions handout
- Copies of the Answer Sheet
- Copies of the Key Questions handout

Facilitator instructions:

NOTE: There are three different scenarios (one for each table). If there are only two tables, then scenarios 1 and 3 should be used. If there are more than three tables, one or more of the three scenarios can be used again.

1. The facilitator reads aloud the following instructions:
   I am going to distribute instructions and an answer sheet. Read the instructions and answer the questions on the answer sheet. Once you have read the instructions and completed your answers, place your answer sheet in the envelope in the middle of the table. DO NOT WRITE YOUR NAME ON EITHER DOCUMENT and MAKE SURE NO ONE SEES YOUR ANSWER. Keep the instructions handy for the follow-up discussion. I will give you about 5–10 minutes to complete this.
2. The facilitator distributes the Instructions handout and Answer Sheet to all the participants.
3. The facilitator gauges the rate of completion of the assignment and gives participants a 2-minute warning so that the activity can wrap up within its allotted 10-minute time frame. As part of the 2-minute warning, the

facilitator reminds participants that they should not write their names on the answer sheet; when they have finished, they should put their answer sheet in the envelope in the middle of the table.

4. The facilitator explains:
   I will come around to collect the envelopes with the answer sheets and tally your responses. At the same time, I will give you a Key Questions handout that includes two questions. While I tally the responses on the answer sheets, please go ahead and discuss at your tables the two questions on the handout. Spend approximately 10 minutes discussing these.
5. To tally the votes, the facilitator uses a blank Answer Sheet and notes for each option the total number of votes.
6. The facilitator walks around the room among the tables in a nonintrusive manner and pays attention to what is discussed. The facilitator notes a few comments from the tables that he or she can highlight as part of the transition to the lecture portion.
7. The facilitator gives the participants a 2-minute warning to wrap up their discussion.
8. The facilitator explains:
   Now that you have played the game and had a chance to discuss with others at your tables some of the key underlying issues, let's find out the results of your individual decisions.
9. The facilitator announces the results and poses the following questions to the entire group:
   - Were you surprised by the answers?
   - Alert the participants to the different scenarios at play and how these engender different levels of trust between participants.

   a. The facilitator then explains the case study activity.

Exercise 9.1: Instructions Handout 1

You and a colleague have been arrested after committing a crime. You are both members of a criminal family (Mafia). Upon arrest, you were separated, and there is no way to communicate with him or her. You are now in a police cell, and the police negotiator informs you that they are willing to offer you the following deal, which is also simultaneously being offered to your colleague (you can assume this information is true).

1. If you confess to the crime and your colleague does not confess to the crime, you will receive a reduced sentence of 1 year in prison while your colleague will receive a full sentence of 12 years in prison.
2. If you do not confess to the crime but your colleague does confess to the crime, you will receive a full sentence of 12 years in prison while your colleague will receive a reduced sentence of 1 year in prison.
3. If you both confess to the crime, you will both receive a reduced sentence of 6 years in prison.
4. If neither one of you confesses, you will both receive a reduced sentence of 3 years.

You know that the criminal family you and your colleague belong to has a "zero tolerance" policy toward members who confess to crimes. In the past, family members who have violated this policy have subsequently fallen victims to "accidents." You are quite sure that the Mafia can infiltrate any witness protection programs and would have no difficulty finding you or your colleague in the future.

Exercise 9.1: Instructions Handout 2

You and a colleague, who happens to be a very close and trusted friend, have been arrested after committing a crime. Upon arrest you were separated, and there is no way to communicate with him or her. You are now in a police cell, and the police negotiator informs you that they are willing to offer you the following deal, which is also simultaneously being offered to your colleague (you can assume this information is true):

1. If you confess to the crime and your colleague does not confess to the crime, you will receive a reduced sentence of 1 year in prison while your colleague will receive a full sentence of 12 years in prison.
2. If you do not confess to the crime but your colleague does confess to the crime, you will receive a full sentence of 12 years in prison while your colleague will receive a reduced sentence of 1 year in prison.
3. If you both confess to the crime, you will both receive a reduced sentence of 6 years in prison.
4. If neither one of you confesses, you will both receive a reduced sentence of 3 years.

You and your colleague or close friend have been through a lot together. You have known each other for many years and have an overlapping network of friends and associates.

Exercise 9.1: Instructions Handout 3

You and a colleague have been arrested after committing a crime. Upon arrest, you were separated. You are now in a police cell, and the police negotiator informs you that they are willing to offer you the following deal, which is also simultaneously being offered to your colleague (you can assume this information is true):

1. If you confess to the crime and your colleague does not confess to the crime, you will receive a reduced sentence of 1 year in prison while your colleague will receive a full sentence of 12 years in prison.
2. If you do not confess to the crime but your colleague does confess to the crime, you will receive a full sentence of 12 years in prison while your colleague will receive a reduced sentence of 1 year in prison.
3. If you both confess to the crime, you will both receive a reduced sentence of 6 years in prison.
4. If neither one of you confesses, you will both receive a reduced sentence of 3 years.

You and your colleague are both relying on the services of an extremely competent lawyer who can mediate between the two of you and get you (both) to sign legally binding civil contracts.

This lawyer has just informed you that your colleague is willing to sign a contract stating that she did not commit the crime so long as you simultaneously do the same.

Exercise 9.1: Answer Sheet Handout 1

Please indicate below, by ticking (√) the box next to the appropriate action, what you would like to do. PLEASE TICK ONLY ONE BOX.

Confess to the crime	
Do not confess to the crime	

Please indicate below, by ticking (√) the box next to the appropriate action, *what you think* your colleague will do. PLEASE ONLY TICK ONE BOX.

He/she will confess to the crime	
He/she will not confess to the crime	

Briefly explain why you decided to select one course of action over the other.

Once you have completed your answers, put them in the envelope in the middle of the table.

Exercise 9.1: Answer Sheet Handout 2

Please indicate below, by ticking (√) the box next to the appropriate action, what you would like to do. PLEASE TICK ONLY ONE BOX.

Confess to the crime	
Do not confess to the crime	

Please indicate below, by ticking (√) the box next to the appropriate action, *what you think* your colleague will do. PLEASE ONLY TICK ONE BOX.

He/she will confess to the crime	
He/she will not confess to the crime	

Briefly explain why you decided to select one course of action over the other.

Once you have completed your answers, put them in the envelope in the middle of the table.

Exercise 9.1: Answer Sheet Handout 3

Please indicate below, by ticking (√) the box next to the appropriate action, what you would like to do. PLEASE TICK ONLY ONE BOX.

Confess to the crime	
Do not confess to the crime	

Please indicate below, by ticking (√) the box next to the appropriate action, *what you think* your colleague will do. PLEASE ONLY TICK ONE BOX.

He/she will confess to the crime	
He/she will not confess to the crime	

Briefly explain why you decided to select one course of action over the other.

Once you have completed your answers, put them in the envelope in the middle of the table.

Exercise 9.1: Key Questions Handout—Group Discussion

Once everyone around the table has completed his or her individual responses and placed them in the envelope, please discuss the following questions as a group.

1. What are the main reasons people are giving for the action they took?

2. Does the anticipated action of a person's colleague seem to be affecting how people choose whether to confess to the crime?

3. How does the additional information you have about your colleague, the broader context, or mediating parties affect behavior in this case?

Notes:

Notes

1. *Source:* Inspired by (Calvert 1992, 7–24).
2. *Source:* Duch (2009) and inspired by Rothstein (2000).
3. *Source:* Inspired from (Duch 2009) and (Rothstein 2000).

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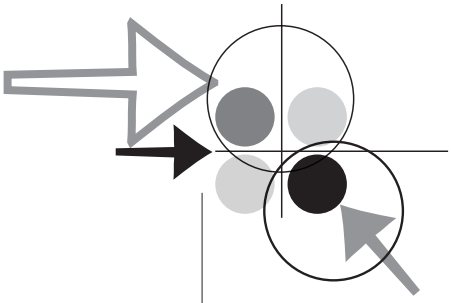
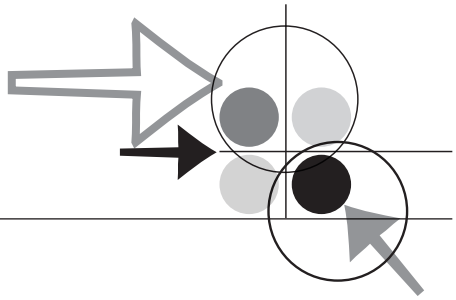


PART II

Chapters 10 and 11 will attempt to bridge the gap between political-economy analysis and operational practice. This section explores strategies of "how to" systematically organize and implement analytical findings.



CHAPTER 10

How to Conduct Political-Economy Analyses: First Steps

Now, we move from theory to practice. In this chapter, we use tools and mechanisms previously introduced to conduct political-economy analyses of real-life situations. The chapter will help readers identify and plan for specific factors—such as stakeholder interaction, informational, and motivational problems and other institutional constraints—that impede collective action and to create reform strategies that help realize their objectives. This kind of diagnostic addresses the *what*, the *why,* and the *how* of reform.

The first section of this chapter presents most of the political-economy analysis tools a reformer needs to do the following:

- Diagnose the need for change, or the *what* of the reform
- Understand the logic behind the problem, or the *why*
- Anticipate the costs and benefits of concrete reform paths
- Reflect on the change process itself and on the problems posing internal or organizational obstacles to change.

The structured process through which development practitioners gather and systematize information on the *what* and the *why* of policy change helps both to clarify why suboptimal development outcomes persist and to inform

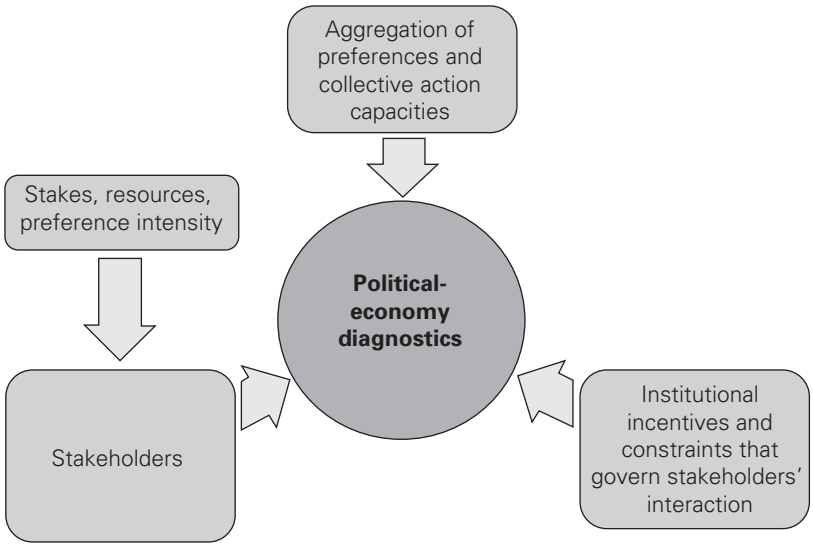
the priorities of the change process. Once reformers have carefully examined the policy costs and benefits and selected the reform path from a repertoire of possible solutions, they must shift to strategic thinking. Advancing reform goals means evaluating viable alternatives and anticipating stakeholders' reactions, intensities of preferences, resources, and so on.

Objectives of Chapter 10

By the end of this chapter, readers should be able to do the following:

- Identify various types of stakeholders and the consequences (stakes) that reform could have for them
- Create maps of stakeholders, including the various groups and individuals that might support or oppose reform, and, as shown in figure 10.1, an estimate of the factors that determine the strength of their preference and their ability to mobilize collectively
- Assess the institutional context in which actors' interaction occurs
- Understand and incorporate into their analyses the sets of constraints on change their projects face
- Differentiate between various analytical instruments and techniques such as inferential and descriptive political-economy analysis.

FIGURE 10.1 Conceptual Diagram of Political-Economy Diagnostics



Source: Authors.

Who Are the Stakeholders, and How Can Their Preferences Be Mapped?

Stakeholders—also sometimes referred to as the actors or players in a strategic game—are parties with identifiable interests in the process of reform. These can be *individuals* (for example, influential members of the opposition, the president, the prime minister, and civil society leaders, among others) or *organizations* (labor unions, administrative units, various factions within political parties or within the national legislature, donor agencies, and the like). The context in which stakeholders operate creates both opportunities and challenges for them as they seek to further their agenda.

It is often the case that to induce change, a coalition of stakeholders must come together and mobilize resources. In many circumstances, individual stakeholders may have little experience working with each other, and this lack of familiarity could potentially generate a host of coordination problems. Furthermore, the common goal of reform may spark disputes over the relative contributions of different coalition partners.

To preempt some of these challenges, reformers must first identify potential stakeholders, their comparative advantages, their stakes in the reform process, and the feasibility of producing a viable reform coalition. This process comprises two parts: (1) an inventory (or mapping) of the key stakeholders, their political influence, and the links between them; and (2) a grasp of the stakes in achieving or not achieving policy reform. What and how much will these actors win or lose? Keep in mind that there are different types of stakes and that not all of them are necessarily quantifiable.

Stakeholder Mapping

There is a fine line between creating a comprehensive list of most or all actors with specific policy interests and simply identifying key stakeholders and mapping their preferences for analytical purposes. Thinking about the pertinent *aggregation* of preferences can help condense useful information and shed light on the coalitional potential of the stakeholders. Below are some examples of broad levels of interest aggregation and articulation:

- Socioeconomic class (defined in terms of income or wealth; for example, the rich, the middle class, the poor)
- Ethnic groups
- Faith-based groups
- Informal groups of well-connected individuals
- Rural versus urban interests.

The pertinent aggregation of preferences depends on the mobilization potential of individuals or organizations with vested interests in the reform process. Mobilization for policy action requires stakeholders first and foremost to solve their collective action problems. Passive preferences for reform or policy change, in the absence of collective action, do not create cohesive groups of stakeholders. As Amartya Sen (1977, 329) noted, "Commitment drives an all-important wedge between personal choice *(preference)* and personal welfare *(interest)*."

Thus, based on the capacity for collective action and the corresponding influence within the policy domain, two types of groups may exist: (1) unorganized or diffuse interests and (2) organized or concentrated interests. Therefore, the analyst must be very careful when specifying *latent interests or preferences* in society, as opposed to *articulated and mobilized interests* that hinge on solving collective action problems. One of the criticisms of analyses based on class (rich versus poor, for example) is precisely the lack of specification about how these interests become aggregated and mobilized in the first place and transform individuals into cohesive class-based political actors with homogeneous member preferences (such as rich, poor, and middle class).

There are two main analytical approaches that help analysts determine preferences and interest aggregation:

- *Inductive*, revealing subjective values or actual preferences derived from field work, interviewing actors intricately involved in the policy-making process on the ground, and survey work
- *Deductive*, revealing objective values or expected preferences that can be derived from theory based on the logical possibilities and precedents of preference articulation and interest aggregation.

An example of discrepancies in the two methods comes from case studies of financial liberalization in Japan. According to deductive expectations, in the 1980s Japanese consumers were believed to favor financial liberalization since such a reform was likely to trigger lower prices (access to higher-quality or lower-priced services because of increased competition). In practice, however, Japanese consumers actually mobilized against their own interests (narrowly defined) and opposed financial liberalization (Vogel 1999). What explained the passivism of Japanese consumer groups in light of their actual (material) interests? This failure to push for liberalization of bank deposit interest rates was not a collective action problem but rather, as inductive analysis demonstrated, a case of consumers with different lifestyle preferences who wished to preserve the availability of Japanese companies even

more than they desired the benefits associated with a drop in prices for financial products.

To summarize, a good political economy diagnostic should clarify four steps before completing the list of stakeholders: *their policy preferences* (personal choices); *interest specification* (actors' awareness of how their preferences translate into personal welfare); *interest articulation* (what actors actually want, express and pursue regardless of their capacity to obtain it); and *interest aggregation* (collective action capacities for policy change).

Organizations that solve collective action by pooling preferences of individuals and groups who coalesce around common policy goals are often one of two types, each with its own strengths: (1) *single-issue organizations* (taxpayer associations, public sector labor unions, and the like), which have a focused, interest-based specialization and a good knowledge of the policy domain and may have already solved issues of coordination; and (2) *multi-issue organizations* (political parties, broad interest groups, labor federations, and the like), which have more power through formal policy channels and potentially more clout or perceived legitimacy in voicing demands for change.

The position of stakeholders vis-à-vis governments and the intensity of advocacy during the reform process places them in the following categories (Fritz, Kaiser, and Levy 2009, xiii):

- Demand-side versus supply-side stakeholders (government versus non-traditional, nonstate actors)
- *Reform champions* (powerful actors with high stakes in the policy process who facilitate collective action and advocate change), versus *reform opponents* (concentrated interests that derive benefits from the status-quo).

It is important to note that reform champions and opponents might have multiple policy agendas, as well as various collective action and coalition-building skills (*Idem*). After taking all these factors into account, the analyst should be able to identify the potential *winners and losers* of the reform process, as well as those for whom reform will be *neutral*.

Stakes (or Payoffs)

Stakes refer to the consequences of the reform process for various stakeholders. The checklist presented in the next chapter uses the concepts of preferences, interests, payoffs, and stakes interchangeably to refer to gains and losses from policy outcomes. Expected consequences of policy change vary in substance, time frame, stakeholders' risk profile, and reform stages.[1]

There are different types of stakes, and not all of them are necessarily quantifiable. A typology of stakes may be relevant to actors in the reform process:

- *Monetary stakes or payoffs*. For example, if a reform will result in stricter taxpayer registration policies, taxpayers who engage in tax evasion or are active in the informal sector stand to see their profits reduced; therefore, we would expect some resistance from these individuals or groups.
- *Reputational costs and gains.* By successfully pioneering or implementing the reform, individual policy makers may enhance their reputations, thereby advancing their careers within a political party, bureaucracy, or international community. Some reputational costs and gains are specific to a given cultural context.
- *Audience costs and gain.*[2] When political leaders make commitments and do not follow through, their popular approval may diminish. In foreign policy, if leaders make empty war threats, they might suffer loss of credibility and approval with their domestic political constituency. Likewise, if during election campaigns politicians promise schools and roads but later renege on the promise, they might be punished in the next electoral round. Audience costs depend on the type of political system and on accountability relations.

Here are other important factors that shape actors' stakes:

- *Time horizon.* Depending on the situation, the differences between the short-term and the long-term gains perceived by stakeholders, as well as the period of time that actors can afford to wait without incurring major political costs, might be significant in the process of reform.
- *Stakeholders' risk profile.* Some key stakeholders will be more risk averse (less willing to take political risk by promoting a particular reform) than others who may be risk prone or risk seeking (more likely to put their reputations on the line for a successful reform outcome).
- *Reform stages.* Some actors or stakeholders will be interested primarily in the process of policy formulation; others will have most to gain from policy implementation. Mapping the stakes of policy change can tell us a lot about the magnitude of gains or losses stakeholders anticipate, but they do not paint the full picture yet. It is also crucial to know what resources stakeholders have, as well as what institutional advantages or constraints they face.

The Role of Institutions

Having identified the relevant stakeholders and their preferences, the analyst must then understand how the institutional context determines the

power of different stakeholders to promote their agendas. In other words, it is important to map the formal and informal institutions that govern a policy-making process to determine how the rules of the game may affect the ability of certain stakeholders to realize their policy goals. For instance, the ministry of education, because of its institutional location in the policy domain, will be more influential in pursuing reform than a civil society organization that advocates teachers' related causes. The institutional power of various stakeholders may or may not be associated with the financial resources at their disposal.

Below are some sample questions to help identify institutions for political-economy diagnostics:

- Is there any institutional malfunction? If so, is it caused by the formal or by the informal rules governing the interaction of various stakeholders?
- Do the rules that govern the domain of change reflect preexisting power relations between actors?
- What institution or rule generated the relevant suboptimal outcomes?
- Does the institutional context grant certain stakeholders special privileges, such as the ability to veto a reform or set the agenda?
- Once change agents understand the institutional map of reform, how can they navigate among institutions and surmount obstacles?
- Are there any opportunities for *formal* or *informal* agenda setting? By taking advantage of some institutional rules, can change agents circumvent entrenched interests that would block attempts at reform?
- How do the incentives generated by the rules of the game affect the collective action potential, resources, and reform stakes for stakeholders?

The Role of Constraints

Apart from identifying relevant stakeholders and the institutional context in which they operate, change agents should also consider the constraints stakeholders face. Previous chapters have argued that understanding principal-agent problems, information asymmetries, or lack of credible commitment are crucial for pro-development collective action and change. Identifying such constraints can explain the *what* and *why* and provide clues about the *how* of reform. For instance, by recognizing a problem as one of institutional commitment to a certain policy action, reformers can work to establish the strong rules that remedy it. Ideally, the checklist in chapter 11 leads from evaluation and diagnostics to interventions that minimize corruption, enhance accountability, and foster good governance. When identi-

fying these constraints, one can attempt to answer questions such as those below:

- Within the policy domain, what are the main modes of collective action—political parties, unions, institutionalized social movements, and the like—and how successful are they?
- What is the nature of the collective action problem: individual free riding, lack of trust, the size of the group, poor incentives, or large inequalities in financial resources between some members of the group and others? Can stakeholders overcome collective action problems? These two questions will also overlap with stakeholder mapping since collective action and preference aggregation will actually determine who the stakeholders are in the first place.
- Are information problems obstructing or facilitating collective action within the change process?
- What are the origins of these imperfections?
- Can the asymmetries be corrected? If so, what are the most effective corrective mechanisms?
- Can a functional principal-agent relationship be established between a reform coalition and those who implement the agenda?
- What are the most effective monitoring, sanctioning, or incentive tools that would prevent organizational leaders from shirking and enhance their accountability to the group members?
- Is a certain bureaucratic agency more corrupt than others due to inefficiently designed monitoring and sanctioning techniques used by the principal?
- Are there any *time inconsistency* problems that generate chronic mismatches between electoral promises of politicians and development results? What is the repertoire of potential mechanisms of credible commitment that the reform team could choose from?

By analyzing potential constraints, one can determine what is and is not feasible in a reform process.

Methods and Instruments for Diagnostics and Analysis

How can the analyst capture the stakeholder preferences, interactions, and constraints? Because reform environments change continually, political information needs to be routinely gathered, updated, and examined with the

final reform goal in mind. A continuous stream of information can help general development practitioners work effectively in fast-changing environments, adjust to evolving realities, and avoid the surprises that often derail the success and sustainability of policy reform. Political-economy analysis brings two analytical components to the table: descriptive and inferential.

Modes of Analysis: Descriptive and Inferential Political Economy

The *descriptive* evaluation of stakeholders and stakes creates a "map" to guide reform efforts. Accurate mapping depends on continuously updated information gathered from media; from interviews with researchers, journalists, and politicians; or from more systematic sources, such as transcripts of parliamentary debate, surveys, official data for budgetary allocations, and so on. Given the potential bias embedded in various information streams and channels, multiple sources should be compared and cross-validated to ensure accuracy. For example, anecdotal evidence on public service delivery gathered from interviews with politicians or bureaucrats should be verified with hard data on budget allocations and with official documents on implementation of service delivery. This method, called *triangulation* in social science research, requires extra effort for political-economy analysts but simultaneously provides a broader and less biased picture of stakeholders (actors), stakes (payoffs), and institutions.

The *inferential* (or causal) component of political-economy analysis serves as the "compass" for policy interventions. Going beyond the *what*, it explores the heart of the *why*. By looking at the strategic interaction between actors, the inferential component of the analysis sheds light on institutional equilibria. Why do they occur and persist?

Unlike the descriptive component, for which information gathering is a relatively straightforward process once the problem has been defined, the inferential (or causal) analysis has a more ambitious mission:

- To identify the relevant institutions (or institutional features) for the given policy change
- To describe the incentives and the dynamic equilibria
- To allow for *comparative statics,* or *scenario analyses,* that illustrate how much the existing equilibrium would adjust if any key factor changed.

All political systems are complex, and the institutional landscape can be overwhelming for the general development practitioner. Political-economy analysis allows an inventory of relevant institutions and draws a distinction between proximate and distant causes of an inferior equilibrium.

Because institutions are interdependent, the scope of information required for the inferential component of the analysis exceeds the inputs necessary for descriptive analysis. For example, the key role of a certain committee in the national legislature interacts with policy incentives for its individual members within their own political parties, as well as with electoral laws and reelection goals. What dimension of the four influences described is the immediate cause of the committee's failure to support the proposed reform?

These complex interactions among multiple nested institutions require a plethora of political-economic information beyond the immediate scope of the proposed policy reform. For example, an inferential analysis might also look at how an upcoming change in the electoral system or the process of decentralization might affect opportunities to implement education or health reform by reconfiguring and realigning incentives and institutions.

Whereas descriptive political-economy analysis is heavily context specific, the inferential type draws on lessons learned in other contexts. In this sense, general reform practitioners should build repositories of political-economy studies done in other countries, in other sectors, or across nations. Reformers can use this theory-based reference to help identify institutions and other political-economic factors that have been found relevant in other countries or sectors and should thus be considered in the analysis at hand.

As we have seen, inferential political-economy analysis relies heavily on learning from external sources, whereas the descriptive analysis uses information gathered mostly in a specific context and time. Inferential political-economy analysis is the only method that allows us to sort through competing hypotheses or explanations and choose that ones confirmed by empirical data.

Instruments for Identifying Stakeholders, Their Incentives, Constraints, and Interaction

How can we concretely identify relevant stakeholders? How can we measure their perceptions, preferences, resource endowments, and institutional position? As demonstrated in Concepts in Practice 10.1, one way is to develop a valid and consistent survey instrument that can capture the data. Although self-reporting in interviews has its pitfalls (strategic miscommunication or failure to recall events, for example), a well-designed survey can elicit proxies for the "real" preferences of stakeholders, as well as for their intensity, with an adequate degree of accuracy. Of course, other context-specific tools may be appropriate as well. For example, interviews or quali-

CONCEPTS IN PRACTICE 10.1

Using a Survey Instrument to Map the Political Economy of Health Care Litigation

In many countries that have publicly financed health care systems, judicial review influences which treatments are available to the public (through priority-setting cases) and how health care professionals are held accountable (through negligence cases). Health care litigation can, potentially, affect both the efficiency and the equity of a health care system, but the net welfare effects are ambiguous. On the one hand, health care litigation can promote efficiency by incentivizing health care professionals to be mindful of patients—reducing waste and carelessness. However, the fear of lawsuits in malpractice cases may incentivize health care professionals to order unnecessary tests or procedures, to carry expensive insurance policies, and to spend too long on each patient—driving up costs and hence impairing the efficient allocation of resources.

Health care litigation may also have effects on equity. Because decisions about which medications are provided to the public sector are often made by bureaucrats in consultation with only the most organized interest groups, litigation may allow groups excluded from this initial decision-making process to obtain medication and treatment for their conditions. However, as the ability to litigate is unlikely to be equal for all groups, increased health care litigation may result in the skewing of resources toward those who can litigate and away from those who cannot (often the poor and marginalized).

To help understand the perceptions of different stakeholders on the net effect of health care litigation, a study identified and surveyed key actors involved in or affected by health care litigation (bureaucrats, patient groups, representatives of the medical profession, judges, pharmaceutical companies, academics, and journalists). This exercise allowed mapping the preferences of different stakeholders, the intensity of these preferences, the institutional rules governing the actors' interaction, and the perceptions of stakeholders of many different dimensions of health care litigation. In addition, the survey also assessed the extent to which the stakeholders communicate and collaborate with each other.

Source: Corduneanu-Huci, Hamilton, and Masses-Ferrer (2011).

tative case studies may provide critical insights into the political-economy context of reform.

From Theory to Action

Regardless of the type of political-economy analysis in question, it is essential to consider how such findings might affect the agendas of relevant stakeholders and their incentive either to take ownership of or to oppose the implications of reform.

Agenda Ownership

Political-economy analysis pays attention to context and identifies the spaces for feasible reform. Once the stakeholders, their interests, and their institutional influence have been mapped and the ensuing equilibria teased out, the next step in coalition building is to consider who *owns* the reform agenda. The key aim for the policy reformer should be to support the emergence and continuation of pro-change coalitions, "while accepting that these actors coordinated in coalitions of change, define the scope and precise direction of change they want to pursue" (Fritz, Kaiser, and Levy 2009, 20).

Ownership of the change agenda thus presupposes (1) *legitimacy* (that is, the acceptance or full recognition) of the authority for change; and (2) a *genuine belief* that the change will result in a better (welfare-enhancing) equilibrium. In short, stakeholders will become proactive only when they believe in, or own, the reform goals and the potential for change.

Leadership

What do leaders do when faced with the fundamental problems and mechanisms that this handbook has presented so far—principal-agent issues, information asymmetries, market failure, collective action problems, and credible commitments, among others?

Leaders as Coordinators and as Solvers of Political-Economy Problems. Leaders who can organize reform coalitions can be a critical component of realizing the reform process. Up until now, we have seen how important the interaction between actors can be in explaining outcomes. We have explored how rational actors may need to condition their behavior (strategies) based on how they anticipate that other actors will react or behave (as in the prisoner's dilemma). We have also looked at how such interactions can result in the emergence and persistence of suboptimal outcomes (as in the coordination game). We have seen that institutions might incentivize actors to alter their strategies, potentially changing the outcomes (the agenda-setting game, the principal-agent game, and the credible commitment examples).

A final, but potentially critical, concept we need to come back to is the role of leadership in explaining outcomes.[3] In many real-life situations, actors may be able to understand and anticipate how they, in cooperation with some or all other players, can change the environment (rules of the game) and thus generate different outcomes. This result may come about through a process of *leadership*.

In the broadest possible sense, leadership can be analytically construed as the ability to understand and alter the nature of interaction between actors. For example, the coordination game has two equilibria. Given this institutional context and the preferences of actors, it is not possible to predict, a priori, which equilibrium will prevail. However, if one of the players is known to be a good communicator and can convince the other player that coordination will be beneficial to both, a more accurate prediction of what will happen in the game may be possible. Thus, the incorporation of leadership into our thinking potentially increases our ability to analyze and predict outcomes.

However, it is important to remember that leadership is no panacea. Poor accountability mechanisms, or a conflict of interest between a leader and the majority of a reform coalition, can obstruct reform objectives. In contrast, sometimes, the ability of large groups to spontaneously organize and realize their objectives in a leaderless pattern can facilitate positive change.

Summary

To understand how policy making works, and therefore how pro-development changes can occur, we must be able to identify and understand the stakeholders' incentives and stakes. The preferences, payoffs, and strategic interaction among different actors are vital in determining which proposals are feasible and which are not. Political-economy analyses allow reformers to identify who might help or hinder their reform process by drawing useful analytical maps that the reformers can then navigate.

Exercise 10.1: The Leadership Game[4]

The facilitator explains the steps involved in the Leadership Game.

Steps in the exercise (time frame: ~40–45 minutes):
- Read out instructions (1 minute)
- Allow participants to read and answer (5–10 minutes)
- Collect responses, tally responses, group discussion (10 minutes)
- Class discussion (10 minutes)
- Technical explanation (10 minutes)

Preparation and materials:
- Envelopes to be placed in the middle of the round table (one at each table)
- Pens should be available to all participants
- Copies of the handout of instructions
- Copies of the answer sheet
- Copies of the Key Questions

Facilitator instructions:
1. The facilitator should read aloud the following instructions:
   I am going to distribute instructions and an answer sheet. Read the instructions and answer the questions on the answer sheet. Once you have read the instructions and completed your answers, place your answer sheet in the envelope in the middle of the table. DO NOT WRITE YOUR NAME ON EITHER DOCUMENT and MAKE SURE NO ONE SEES YOUR ANSWER. Keep the instructions handy for our follow-up discussion. I will give you about 5–10 minutes to complete this.
2. The facilitator distributes the instructions handout and answer sheet to all the participants.
3. The facilitator gauges the rate of completion of the assignment and gives participants a 2-minute warning so that the activity can wrap up within its allotted 10-minute time frame. As part of the 2-minute warning, the facilitator reminds participants that they should not write their names on the answer sheet; when they have finished, they should put the answer sheet in the envelope in the middle of the table.
4. The facilitator explains:
   I will come around to collect the envelopes with the answer sheets and tally your responses. At the same time, I will give you a handout that includes two key questions. While I tally the responses on the answer sheets, please go ahead and discuss at your tables the two questions on the handout. Spend approximately 10 minutes in this discussion.

5. To tally the votes, the facilitator uses a blank answer sheet and notes for each option the total number of votes.
6. The facilitator walks around the room among the tables in a nonintrusive manner and pays attention to what is discussed. The facilitator notes a few comments from the tables that he or she can highlight as part of the transition to the lecture portion.
7. The facilitator gives the participants a 2-minute warning to wrap up their discussion.
8. The facilitator explains:
   Now that you have played the game and had a chance to discuss with others at your tables some of the key underlying issues, let's find out the results of your individual decisions.
9. The facilitator announces the results and poses the following questions to the entire group:
   1. Were you surprised by the answers?
   2. What does the answers say about the need for leadership?
   3. What does this exercise suggest is the link between leadership and the institutional context?

Exercise 10.1: Instructions Handout 1

You are part of a large team, which has been assigned a very important project whose outcome is critical for the organization.

The project has many components, and it makes sense that team members with specific skills specialize in different tasks. However, the project also requires coordination between team members to ensure that the end product is coherent. Therefore, it might make sense if someone assumed the responsibility of strategic oversight of the project.

You are one of the people who is on good terms with everyone on the project, and you also have a very clear idea of what the end product needs to look like.

Also, your organization has a well-established culture of using a team coordinator for large projects. In fact, all the other team members are used to working in a team with someone coordinating activities.

Furthermore, your organization has effective support mechanisms to facilitate this coordination role, providing dispute resolution mechanisms and support for a team coordinator who may face unanticipated difficulties in dealing with team dynamics.

Exercise 10.1: Instructions Handout 2

You are part of a large team, which has been assigned a very important project whose outcome is critical for the organization.

The project has many components, and it makes sense that team members with specific skills specialize in different tasks. However, the project also requires coordination between team members to ensure that the end product is coherent. Therefore, it might make sense if someone assumed the responsibility of strategic oversight of the project.

You are one of the people who is on good terms with everyone on the project, and you also have a very clear idea of what the end product needs to look like.

However, you also know that no large project undertaken by the organization in the past has had a group coordinator. Therefore, you are unsure how your colleagues will react to your suggestion that you take on this role.

Furthermore, you know that one other member on the team very much enjoys "leadership roles" and would therefore make a huge fuss if anyone else thought he or she should have such a role.

Exercise 10.1: Answer Sheet Handout 1

Please indicate below, by ticking (√) the box next to the appropriate action, what you would like to do. PLEASE TICK ONLY ONE BOX.

Propose to act as team coordinator	
Propose nothing	

Briefly explain why you decided to select one option rather than the other.

Once you have completed your answers, put them in the envelope in the middle of the table.

Exercise 10.1: Answer Sheet Handout 2

Please indicate below, by ticking (√) the box next to the appropriate action, what you would like to do. PLEASE TICK ONLY ONE BOX.

Propose to act as team coordinator	
Propose nothing	

Briefly explain why you decided to select one option rather than the other.

Once you have completed your answers, put them in the envelope in the middle of the table.

Exercise 10.1: Key Questions Handout—Group Discussion

Once those around the table have completed their individual responses and placed them in the envelope, please discuss the following questions as a group:

- What are the main reasons people are giving for the action they have taken?

- Does the organization's culture appear to be affecting people's answers?

- If so, what does that suggest about factors needed to achieve team coordination beyond the presence of a willing individual with the right skills?

Notes:

Notes

1. While technically stakes and payoffs are analytically distinct—stakes refer to the anticipated consequences of a decision while payoffs refers to the consequence of an outcome of strategic interaction, they are both concerned with the potential monetary and/or non-monetary factors that affect decision maker's welfare and decision-making calculus.
2. See Tomz (2007).
3. See Solution 1: Leadership in Chapter 9 (page 264) for an exposition on how leadership can facilitate coordination.
4. *Source:* Inspired from (Calvert 1992) and (Rothstein 2000).

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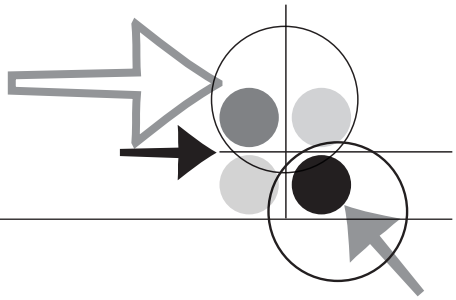

CHAPTER 11

Recognizing Opportunity for Policy Change

This chapter takes the development of actionable political-economy analysis to the next level. It examines how outside events or "shocks"—such as a change of government, an economic meltdown, or a foreign crisis—can provide reformers with both opportunities and challenges for realizing their policy goals. A good political-economy analysis will not only create a framework for thinking about the *what,* the *why,* and the *how* of reform but also take into account such dynamic factors as anticipated events (reaction of vested interests or mobilization of supporters) and unanticipated events (natural disasters and the like). Finally, because the *when* of change also matters, a robust diagnostic should include recommendations for timing the initiation of reform.

Once the development practitioner has an understanding of the opportunities and challenges presented by outside events, as well as by stakeholders, it is possible to leverage momentum for action. For example, political scandals have sometimes enabled good governance campaigners to ensure the enactment of reforms (such as freedom of information acts or procurement

laws) because of increased public support for such measures. Of course, a political scandal may also weaken the reform coalition if supporters of one cause are forced to resign because of their activities in an unrelated field.

In short, this chapter discusses the importance of timing and the other factors that practitioners should consider when deciding whether and when to push a reform forward. First, we examine how the timing of policy change can affect the success of a reform process. Second, we argue that a project must be responsive to changing dynamics, and we explore how political, social, economic, and international events affect project implementation on the ground. Third, we look at the effects of other factors, including concurrent reform policies, and how these may affect results. Finally, we bring together the insights of this chapter and those of chapter 10 into a comprehensive checklist for political-economy analysis, designed to help policy makers think systematically about the relevant political-economy factors and mechanisms that they need to consider before embarking on a project.

Objectives of Chapter 11

By the end of this chapter, readers should be able to understand the following:

- The complexities of temporal sequencing and their relevance for political-economy analysis
- The temporal dynamics of the processes of reform
- The stages of project or reform implementation.

Learning how to conduct a political-economy analysis can empower readers to think about change in their own work.

Time Frames for Reform: Timing, Sequencing, Pacing, and Maintaining Momentum

Certain moments in time are particularly auspicious for lasting change. In the parlance of political economy, these openings as often called critical junctures—unprecedented episodes of catalytic events that lead to the realignment of incentives and lift preexistent constraints on action. One example is the fall of the Berlin Wall in 1989, followed by the collapse of communism in Eastern Europe and eventually the dismemberment of the Soviet

Union. Critical junctures can be triggered by many factors: domestic and international conflict, geopolitical shifts, economic booms or crises, the discovery of new natural resources, global changes in economic conditions, major episodes of technological innovation or changes of political regimes. These openings may create unique opportunities for reforms that could lead to better development equilibria.

Timing: Why Is Timing Important?

Public policy does not occur in a vacuum. Numerous factors may already be affecting public policy makers at the time a reforming coalition attempts to effect change. These factors can potentially make the policy-making context more or less conducive to a reform agenda. As noted in one report on policy change efforts, "The sequencing and timing of actions associated with policy reforms can also determine the level of tension and conflict, the duration, and ultimately the success or failure of reforms" (Social Development Network 2008, 2). Below are some timing factors that may help or hinder the effort of a reform coalition.

Domestic Timing Factors. *Election cycles.* An election cycle is a crucial domestic factor that can significantly affect the success of reform efforts. As elections approach, office holders may be more willing or less willing to engage with policy proposals, depending on how those proposals may affect their electoral prospects.

An example of the effect of such timing on policy making comes from a study of pre- and postelection macroeconomic policy (Alesina, Cohen, and Roubini 1992). It has long been assumed that politicians have an incentive to try and make voters feel better off just before an election—leaving unpopular economic adjustment to the postelection period. This tendency can mean that projects with an immediate "feel good" impact may be favored in the run-up to an election, while funding for similar projects may dry up immediately afterward. Using data from 18 countries in the Organisation for Economic Co-operation and Development, the authors of the study find little evidence of pre-election attempts to boost growth or reduce unemployment (Alesina, Cohen, and Roubini 1992). However, the authors did find evidence that monetary policy is looser in election years and that public expenditure is also greater, which may make it easier to obtain credit for an upcoming project.

Shifts in public opinion. Shifts in public opinion may also affect the timing of reform efforts. Reforms often work best when they coincide with surges in

public support. In certain contexts, public opinion polls are a useful mechanism for helping determine whether the timing is right to implement a reform. If a population expresses negative attitudes toward a proposed policy, then the reformers should consider either changing the policy or delaying the implementation of the reform and designing an effective communication strategy for garnering more support. Media events may alter the receptiveness of the public to the reform agenda by increasing or decreasing the saliency of the issue.

An example of the effects of public opinion comes from a study of how the spread of radio in the United States promoted relief efforts in the 1930s (Strömberg 2004). If voters have more information about what spending programs are available, they are more likely to demand that their elected representatives obtain that funding. The author of this study showed that the spread of radio had the effect of increasing the amount of relief funds that counties received during the Great Depression. Thus, more informed voters (those with a radio) were able to obtain more resources than the relatively uninformed voters (those without a radio), even when controlling for other characteristics. This finding suggests that voters with information may be more willing to mobilize and punish or reward incumbents based on the decisions they make. Public opinion support often provides significant help to reform champions in reaching their policy goals.

Changes to policy-making structures. Especially during the public policy–making process, the reorganization of bureaucratic departments or the inclusion of new stakeholders in decision making can alter the priorities and hence the attractiveness of fresh reform agendas.

An example of the participation of civil society in policy design in Brazil illustrates the point (Houtzager and Lavalle 2010). The formal inclusion of civil society actors in policy making in Brazil has altered local government priorities and activities. While this change in procedure has increased the overall ability of such groups to hold government to account and reduce administrative inefficiencies, it has also raised important questions about the new direction of public policy. The participation of civil society groups does not automatically guarantee that the interests of citizens, as opposed to the interests of those who control or lead these groups, are favored. Many of the civil society organizations now involved in decision making do not have mechanisms of accountability themselves since their leaders are not often elected or monitored. Therefore, if they fail to develop these mechanisms in the future, civil society groups may be just as prone to weak accountability and corruption as the policy makers they sought to curtail. Thus, while a change in the administrative process may shift policy priori-

ties and open up reform possibilities, it does not guarantee a reduction of inefficiencies or necessarily ensure representation of marginalized groups of citizens.

Economic Timing Factors. *Changes in the economic context*. The growth of gross domestic product, inflation, and unemployment may alter the feasibility or the political desirability of different reform agendas.

Studies of socioeconomic development and corruption provide an example (Treisman 2007). Economic modernization and long periods of democratic government have been associated with less (perceived) corruption. The possible mechanisms behind this outcome are many, but to a certain extent they involve the ability of an increasingly informed citizenry to oversee incumbent politicians. Because informed voters can reward elected officials who facilitate the provision of public goods and punish officials who engage in rent seeking, pro-development reform agendas become more feasible and viable as the broader socioeconomic context improves.

Economic crises often open opportunities for change that have never existed before. For example, the decisions of some Latin American leaders to pursue drastic economic reform policies following crises in the 1980s and 1990s can be partially explained by the leaders' belief that voters were informed enough to know that the painful reforms were necessary for solving the structural causes of the crises. In addition, the likelihood of significant losses in the standard of living of the population in the absence of necessary reforms made the general public more sympathetic toward dramatic policy change (Weyland 2003). At other times, crises generate policy taboos. In periods of high inflation or unemployment, reform attempts that are likely to impose additional costs on the population (for example, food subsidy reductions) are likely to be highly contentious and short-lived.

The budget cycle. The availability of funds and the incentive structure surrounding allocations of resources may determine when it is feasible to make certain policy recommendations.

Budgeting in the public sector is an example. In many public organizations, budgets are allocated at the beginning of the fiscal year, and any surplus revenue is taken back at the end of this period. This cycle creates an incentive for individual agencies to spend any remaining budget toward the end of the fiscal year. The incentive may be particularly acute if a budget surplus is taken as a signal that too much money was allocated to the agency in the first place. Thus, projects that may not have been considered viable may suddenly receive funding, not because of a change in priorities but because of the political economy of the budget process. Major public sector

organizations affected by such budgetary rules include the World Bank, many agencies around the world, and the U.S. Department of Defense. Studies have found that even if the formal rules and official policies of certain development organizations try to lower or eliminate the pressure to spend the entire budget allocations by the end of the fiscal year, many project leaders still face informal pressures to do so because of career advancement incentives. The case of the Swedish International Development Cooperation Agency has been well documented (Gibson et al. 2005).

Public finances. The state of public finances (budget deficit, public debt) may alter the feasibility or political desirability of different reform agendas.

Structural adjustment policies in Europe are an example. As a result of unsustainable public finances in much of the peripheral Euro Area in 2012, governments such as Greece, Ireland, and Portugal have had to implement austerity and structural adjustments to comply with the demands of donors (the International Monetary Fund and other member states of the European Union), just as other governments like Italy and Spain have had to stave off the need for such loans by reassuring investors that they can repay their debts. The situation has resulted in politically costly policies, including increased taxation, reduced public spending, and the deregulation and privatization of the economies (opposed by organized interest groups). The economic environment has obviously constrained certain projects (those dependent on public finance), but it may create opportunities for others (those restricted by the power of some vested-interest groups now losing their policy-making powers).

International Timing Factors. *International "best practice" recommendations.* What is perceived as being the optimal policy modus operandi or outcome, according to the international academic or policy-making community, may aid or hinder a reform agenda.

One such example is the spread of central bank independence as a credible signal of sound monetary policy (Moser 1999). The spread of central bank independence in much of the world during the 1990s can be explained partly by the need of governments to credibly commit to limiting their role in manipulating monetary policy in favor of short-term political gain over long-term macroeconomic stability. As one would expect, this set of reforms diffused worldwide came about at least partly to signal a commitment to a sound and more long-term monetary policy. According to the author of this study, it is indeed the case that central bank independence is associated with increased foreign direct investment. In a context of credible macroeconomic conditions, credit constraints may also be eased, and budget cycles may be

mitigated, making it easier for nongovernmental organizations and development agencies to access funds.

International relations. The state and shifts of diplomatic relations among various countries may alter the saliency or feasibility of different reform agendas.

Countries of strategic importance may sometimes receive international aid and support because of their geographical location or their abundance of resources (Lamb 1987). Foreign aid may provide significant financial support for development projects. However, it may also make politicians unresponsive and corrupt and enable them to bribe segments of the public with aid money. Such aid may be used in creating fake jobs and nepotistic networks that are antithetical to sustainable development. For example, the regime of Mobutu Sese Seko was the recipient of over half the U.S. aid to Sub-Saharan Africa in the 1970s, despite the regime's poor human rights record and massive corruption. The share of money that the United States allocated for the provision of public goods went instead to enrich the political elite, while the vast majority of the population remained in extreme poverty. Geopolitical changes, accompanied by sudden decreases or increases in strategic rent or aid flows, can carve spaces for domestic actors to formulate claims and initiate pro-development reforms.

Not taking into account how these exogenous factors may affect the desirability of a reform coalition's agenda can result in missed opportunities or the failure of the reform process. No matter how efficient the internal organization and activities of a reform coalition are, a host of factors influence public policy makers' incentives to accept, modify, or reject a reform initiative. Therefore, reformers must ensure that their proposals complement rather than work against such incentives whenever feasible.

In summary, timing and synchronizing a reform agenda to take into account the opportunities and challenges presented by the policy-making environment are keys to success.

Pacing and Sequencing

The question of pacing and sequencing is closely linked to the concept of reform ownership. Once analysts diagnose the problem, they will often spend considerable time addressing collective action obstacles within the coalition or network of stakeholders, as well as building consensus around reform strategies. This slow process actually works in reformers' favor, as incrementalism can build political will and ownership of reform more successfully than radical policy changes imposed from the outside.

The right sequencing of reform steps can build in short-term political gains that broaden acceptance and pave the way for subsequent stages. If reform fatigue and weak political legitimacy are important obstacles to the change process, small and tangible outcomes on the ground (building schools or improving access to water in a relatively short time) can create community trust and generate a virtuous circle of electoral incentives for politicians to deliver similar results. More ambitious dimensions of reform, however, will need a longer time frame for consultation and implementation (Grindle 2002).

Complementarity versus Trade-offs of Different Reform Areas

The temporal dimension of the reform process has consequences for the substance and scope of the reform as well.

Complementarity of reform areas. Certain policies will not be successful unless bureaucracies are strong and isolated enough from political pressures to implement them credibly. For example, decentralization without an adequate body of local civil servants who have both the capacity and the political incentives to execute the process will not lead to long-lasting positive effects. Therefore, the general development practitioner must identify the prerequisites of the desired reform and establish priorities among various change dimensions with a careful eye toward timing and sequence.

Policy area trade-offs. Feasible change usually implies trade-offs between policy priorities. Research has shown that in some contexts, crucial and heavily contested public administration reforms were possible only at the expense of maintaining "pockets of patronage" within the bureaucracy. In post-1985 Bolivia, for example, as well as in other Latin American contexts, civil service reforms and privatization of state-owned enterprises were possible because of the maintenance of underperforming bureaucratic enclaves that preserved the rents of key elites (Grindle 2007; Geddes 1996).

As argued, the *when* of reform—timing, pacing, and sequencing—can open new opportunities for reform and determine success. Thus, strategies related to timing, alongside diagnostics of stakeholder dynamics, play an important role in political-economy analysis.

But how can we bring together all the elements required to undertake a comprehensive political-economy analysis? The following section provides readers with a portable set of questions that can help them identify some of the critical elements and features of the decision-making context.

BOX 11.1

Political-Economy Analysis: A Practical Checklist

Although every situation in which a political-economy analysis may be useful is unique, complex, and dynamic, a generic checklist of the basic mapping process used in the analysis is a good starting point. A political-economy analysis entails three major steps:

- Identifying the stakeholders and their preferences
- Identifying the rules of the game and the dynamics of interaction between stakeholders
- Identifying how institutional constraints such as information problems, lack of credible commitment, principal-agent relationships, and agenda-setting dynamics shape the proposed policy agenda and the collective action capacity of reform groups.

Stakeholders and Their Preferences

Without exception, a prospective reform will benefit some individuals and groups while negatively affecting the agendas of others. Reformers must evaluate not just the actors and their preferences but also the intensity of those preferences and the ability of the stakeholders to collectively support or oppose the reform. The following questions serve as a guide:

- *Who are the relevant stakeholders?* Identifying the relevant actors requires an understanding of all the individuals or groups that may potentially benefit or lose from a change in the status quo.
- *What resources does each stakeholder have?* Resources include not only the physical endowments (funds, supporters, and cohesive and organized administration) but also the political and communication resources (ability to veto policy change, ability to alter public opinion). The stakeholders' agenda-setting power, capacity to overcome collective action problems, and ability to credibly commit, as illustrated in box table 11.1, must also be considered.
- *What is the intensity of stakeholder preference?* Stakeholders may be positively or negatively affected by a proposed change; likewise, they stand to gain or lose by maintenance of the status quo. The magnitude of this effect will determine how they are likely to respond to policy initiatives. Stakeholders that are only minimally affected (whether

BOX TABLE 11.1 Comparison of Stakeholder Preferences and Resources

Stakeholder	Benefits from reform?	Resources	Intensity of preference	Incentive for mobilization (resources x intensity)
A	Yes	2	0.2	0.4
B	Yes	3	0.1	0.3
C	Yes	2	0.1	0.2
D	No	8	1.0	8.0
E	No	9	0.9	8.1

Source: Authors.

positively or negatively) by the proposed change will probably be less willing to mobilize resources in favor of or against a reform than stakeholders who are more significantly affected.

One way to organize the information on stakeholders and their resources is to use a listing similar to that in box table 11.1. Such listings contain comparative information on the willingness of different stakeholders to mobilize for or against the proposed reform. In the example below, we assume detailed knowledge of stakeholder resources and incentives (it is certainly possible to use simple ranking if this information is not available). Therefore, the following numerical scales are used:

- The resources of stakeholders are given a numeric value from 1 to 10 (1 = *no resources*, 10 = *significant resources*).
- The intensity of stakeholder preference is given a numeric value between 0 and 1 (effectively, a discount factor, with 0 meaning the actor does not care much about the policy issue, whereas 1 implies that she cares intensely).

From the analysis above, it becomes apparent that even though there are more stakeholders in favor (A, B, and C) than against reform (D, E), the uneven resources and intensity of preferences mean that the stakeholders in favor of the status quo have greater incentives to mobilize against the reform (16.1) than those who favor the reform coalition (0.9).

While it is critical to identify the preferences of individual stakeholders, the greater weakness of one group of stakeholders does not mean that the advocates of the reform process should give up. Outcomes may depend far more on the interaction of stakeholders (as in the coordination game) than on their individual capacities.

Institutional Incentives and Constraints

The configuration of institutions can play critical roles in the success of reforms. One of the things to think about, with respect to institutions, is the information dynamics that these create between stakeholders. As shown in box table 11.2, such information imperfections may take the shape of moral hazard and adverse selection problems that, in turn, may prohibit effective stakeholder mobilization or collaboration. Of course, if these pathologies are not too significant, it may cost more to fix them than to accept suboptimal mobilization.

As illustrated in box table 11.3, institutions will also affect the interaction of actors through the way they enhance or limit their ability to do the following:

- *Delegate tasks to each other* (principal-agent dynamic). Such delegation may allow stakeholders to specialize in the task at which they are most effective. However, if it is difficult to monitor each other, such set-ups may not be very effective in a coalition or organization. In addition, because members of organizations such as political parties,

BOX TABLE 11.2 Information Imperfections: Costs and Benefits of Correction

Information imperfection	Magnitude of problem	Benefits of correction	Costs of correction	Correction advised?
Asymmetries	High	High	High	Yes
Moral hazard	Low	Low	High	No
Adverse selection	Low	Medium	High	No

Source: Authors.

BOX TABLE 11.3 Mechanisms, Priorities, and Solutions

Mechanism	Problem diagnosed?	Nature of malfunction	Priority of intervention	Solution
Principal-agent	Yes	Low monitoring capacity	High	Ex ante controls
Credible commitment	Yes	Lack of credibility	Medium	Third-party monitor
Collective action	Somewhat	Lack of leadership	Low	Identifying potential leaders

Source: Authors.

BOX TABLE 11.4 Institutional Stability and Agenda-Setting Opportunities

Institution	Type	Stability	Enforcement	Agenda-setting opportunity? (formal, informal)
A	Formal	High	High	Yes
B	Informal	Low	Low	No
C	Formal	Volatile	High	No
D	Formal	Low	Medium	Yes
E	Informal	High	Low	No

Source: Authors.

nongovernmental organizations, and interest or citizens' groups delegate tasks to their leaders, they have to be aware of the leaders' incentives embedded in the principal-agent relationship. Shirking, or not being able to enforce some level of coordination and discipline among members, leads to problematic accountability relations and to diminished collective action potential of the group in general.

- *Credibly commit to a specific course of action.* Whether stakeholders can or cannot trust each other over a given time horizon can be critical as reforms usually require a multistage commitment.

Institutional constraints. Finally, institutional constraints may affect the very ability of a stakeholder to mobilize. Without mobilization, the actor will not be able to influence policy making.

Once all the different types of incentives generated by institutions are well understood, it is possible to assess their importance by examining how stable they are and whether the rules they entail are really enforced. Institutions may sometimes create incentives, but these may be so weak that they do not, in fact, influence outcomes. Generally, the more stable the context, whether due to the role of formal or of informal institutions, the less likely that the dynamics among stakeholders will suddenly or unexpectedly alter their preferences. The analysts and reformers should also be able to identify agenda-setting opportunities or obstacles associated with their own policy initiative (see box table 11.4).

Between-Stakeholder Dynamics and Collective Action

At this point, the role of leadership and the timing of opportunities, following the process of rigorous mapping, can be critical. Therefore, the

next step to consider in the political-economy analysis is how bringing the stakeholders together for reform might affect outcomes. Perhaps a broad coalition for reform (involving groups A, B, and C) would strengthen the ability to demand change and thus increase the possibility of success. Consider the following dynamics:

- How feasible will it be to facilitate dialogue and communication between the stakeholders?
- How feasible will it be to foster an environment conducive to the development of an appropriate leadership structure?
- Do different stakeholders trust each other? How willing are they to compromise with their ideal policy aspirations?

Having evaluated how to guide the dynamics between actors with a common interest to make the reform coalition viable, the reformer can now consider ways to use the external environment to further the reform agenda through adequate timing, pacing, and sequencing of major steps of action and milestones.

Only with an in-depth understanding of stakeholders and the institutional environment they operate in can reformers become well equipped to organize for reform and move forward strategically.

Summary

Policy making often occurs in a context in which outside events may significantly alter the reformer's opportunities and constraints. Furthermore, stakeholders with different preferences and capabilities often pursue their own agendas and may not have an incentive to care about the public interest. Stakeholder identification and the analytical mapping of institutional dynamics and constraints in play enable reformers to organize critical information, helping them facilitate or foster collective action. By acknowledging the power of events and of actors' interaction, a development practitioner will be able to realize strategic opportunities, evaluate the complexities of policy shifts in a fruitful manner, and thus work effectively to achieve pro-development change.

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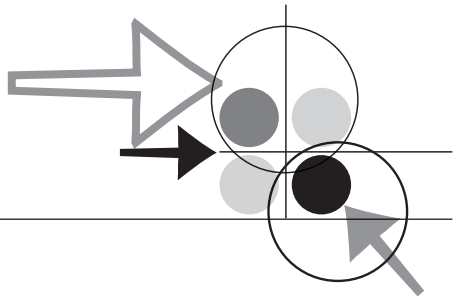

APPENDIX A

Fundamental Concepts in Game Theory

Game Theory and Political-Economy Dynamics

To understand social and political dynamics in terms of a game, we need to learn a few basic definitions that will enable us to "read" the games presented in the book (readers interested in a more formal treatment can consult appendix B).

Basic Concepts in Game Theory (a Gentle Introduction)

Ingredients of a Game. All Games have the following five elements (Rapoport 1974 cited by Smith 2003); Rapoport (1974) and Smith (2003):

- *Rational players or actors*. That is, a player, faced with a choice between alternatives (e.g., *a, b, c*) can say (1) whether she prefers or is indifferent between two alternatives (e.g., $a>b$ and $b>c$), this is defined as having complete preferences; and (2) that these complete preferences must be transitive (if $a>b$ and $b>c$, then $a>c$). For example, citizens and politicians, incumbents and challengers, competing firms, etc.

- *Actions available to each player*. For example, confess/don't confess, cooperate/don't cooperate, or work hard/shirk.
- *Strategies*. This is the set (potentially a combination) of actions a player can pursue given how she expects or knows other players will react to her behavior. For example, a bureaucrat's strategies may include the following: (1) engage in increased rent-seeking activities if she anticipates that politicians will not be able to observe her behavior; or (2) minimize her rent-seeking activities if she anticipates that politicians will detect such activities and punish her for her actions.
- *Rules of Interaction*. Players do not usually operate in an institutional vacuum. Context matters as, for example, it determines what information players have, whether they make decisions simultaneously, whether they can communicate with each other, etc.
- *Outcomes or results*. For example, one possible outcome of a bureaucrat's pursuing a rent-seeking agenda is that her actions are detected and she loses her job.
- *Payoffs*. These are the utility accrued by each player as a result of each possible outcome. In other words, payoffs are the value or utility that players gain from different outcomes. The utility of an outcome depends on the costs and benefits it generates. Specifically, an outcome will be more favorable the larger the gap between the benefits minus the costs. Benefits and costs may be a variety of things—money, votes, fame, etc. Payoffs can be represented in different ways. When faced with a set of (discrete) alternative actions, as in table A.1, one simple way of representing the desirability of payoffs is to rank them in order, say from 1 to 4 (if there are four discrete choices). It is important to note that such ordinal rankings do not convey the magnitude of the difference between the alternatives but only their ordering. Thus, in the table below 4,000 votes is preferred to 3,000 votes, which is preferred to 2,500 votes, although the gap between these alternatives differs (3,000 is 1,000 less than 4,000 while 2,500 is 500 less than 3,000).

  For example, a bureaucrat may receive a higher payoff if she pursues a rent-seeking strategy and is not detected (keeping her job) than if she pursues a rent-seeking strategy and is detected, resulting in her losing her job and facing criminal proceedings.

  In the case of the Philippines procurement reform example, the payoffs to the general public of the passage of the bill were positive (less of their tax money was stolen). For corrupt officials, however, the payoffs are negative, as the bill would lead to fewer possibilities to generate illicit income from corrupt procurement dealings.

TABLE A.1 An Illustration of Payoffs

Payoff (ordinal ranking)	Benefit-cost	Example (votes of a candidate)
4	Greatest	4,000 votes
3		3,000 votes
2		2,500 votes
1	Smallest	1 vote

Game Theory and Party Election Platforms. Let's illustrate the power of this solution concept by using a very simple example. The diagram below represents a normal form game in which two players can act simultaneously. In this case, let us assume the players are two political parties competing for office. Each party can decide on its own electoral platform. In this case, a party can run on either a promise to focus on domestic issues or a promise to engage in a pointless war with a friendly neighboring state.

Given that the electorate would never vote for a party that promised to embark on a ruinous war, both parties will avoid this issue. To see this, let's examine the payoffs for the first party (red). Knowledge of electoral preferences allows the parties to rank their electoral strategies based on how they will appeal to voters, given the other party's behavior. The optimal outcome (vote maximization) of a party is that it pursues the most popular policy and the other party pursues the least popular campaign strategy (highest payoff); the second most favorable outcome is that both parties pursue a popular campaign strategy; the third best alternative is that both parties pursue an unpopular campaign strategy; and the least favorable outcome, for any given party, is that it pursues an unpopular campaign strategy while the other party pursues a popular strategy.

Let's say the first party (light grey) believes that the second party (dark grey) will pursue a domestic electoral campaign. In this case, the first party would obtain a payoff of 3 if it also pursued a domestic campaign and a payoff of 1 if it pursued a war-focused campaign. If, alternatively, the first party believed the second party would pursue a war-focused campaign, it would obtain a payoff of 4 if it pursued a domestic campaign and a payoff of 2 if the party also pursued a war-focused campaign. In short, regardless of what strategy the second party chooses, the first party is always better off pursuing a domestically focused agenda (3> 1 and 4>2). Therefore, pursuing a domestic-focused campaign strictly dominated pursuing a war-focused campaign for the first party independently of the platform choice of the second party. Given that the preferences of the second party are identical to those of

the first (a domestic-focused campaign strictly dominated a war-focused campaign), it is therefore possible to use the iterated elimination of strictly dominated strategies to find the unique solution to the game: namely, that both parties will pursue a domestically focused agenda.

	Domestic		War	
Domestic	3	3	4	1
War	1	4	2	2

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APPENDIX B

Technical Appendix

Nash Equilibrium

Refers to a situation in which an action undertaken by a player is optimal given the actions of every other player. No player has an incentive to deviate from her course of action without the others doing so (Osborne 2003, 21).

Weakly Dominated Strategy

Refers to any strategy that yields payoffs at least as great as any alternative strategy for a specific player. Such strategy results in a higher payoff for at least a subset of the strategy profiles of other players (Shor 2006a).

Strictly Dominated Strategy

Refers to a strategy which yields a higher payoff for a player independently of the actions of any other players in the game (Shor 2006b).

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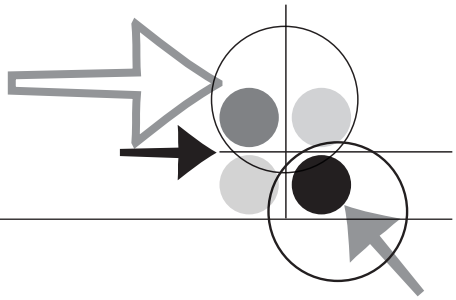


APPENDIX C

Political-Economy Concepts in Practice: Public Procurement Reform in the Philippines

Corruption has been identified as one of the major factors that can hinder development. Given a weak rule of law, the environment becomes more hospitable to corruption, thus significantly affecting economic growth and distributive outcomes. The following case study summary describes a public procurement reform in the Philippines that began in 1998 and was approved in 2003 (Campos and and Syquia 2005). This case illustrates how, in a highly complex political-economy environment, a group of reformers was able to form a coalition to advocate for policy change in the crucial area of public procurement transparency.

Note: This is a summary of the World Bank Policy Study by Jose Edgardo Campos and Jose Luis Syquia, *Managing the Politics of Reform: Overhauling the Legal Infrastructure of Public Procurement in the Philippines* (Washington, DC: World Bank, 2005).

The story begins when a group of policy entrepreneurs recognized that the weak rule of law and poor governance in the Philippines prevented growth and development. To address this challenge, the group identified a concrete reform goal: they would overhaul the regulations and operational procedures related to public procurement. Reaching this goal entailed overcoming many political-economy obstacles. The team first had to acquire a comprehensive understanding of the operational context. Then it had to create feasible and effective strategies for bypassing opposition. Indeed, their understanding of context enabled their successful strategy design; in turn, the strategies minimized the bargaining leverage of vested interests, allowing a comprehensive bill to pass in the legislature.

This reform presents a vivid example of how political-economy concepts, key identified constraints, and strategic solutions apply in practice. Given the richness of this case, the following summary will illustrate how the theoretical building blocks discussed throughout the handbook affect real-life scenarios and how using some of the existing political-economy tools can help change agents' understanding of their context and develop feasible and effective strategies to address constraints and achieve positive results.

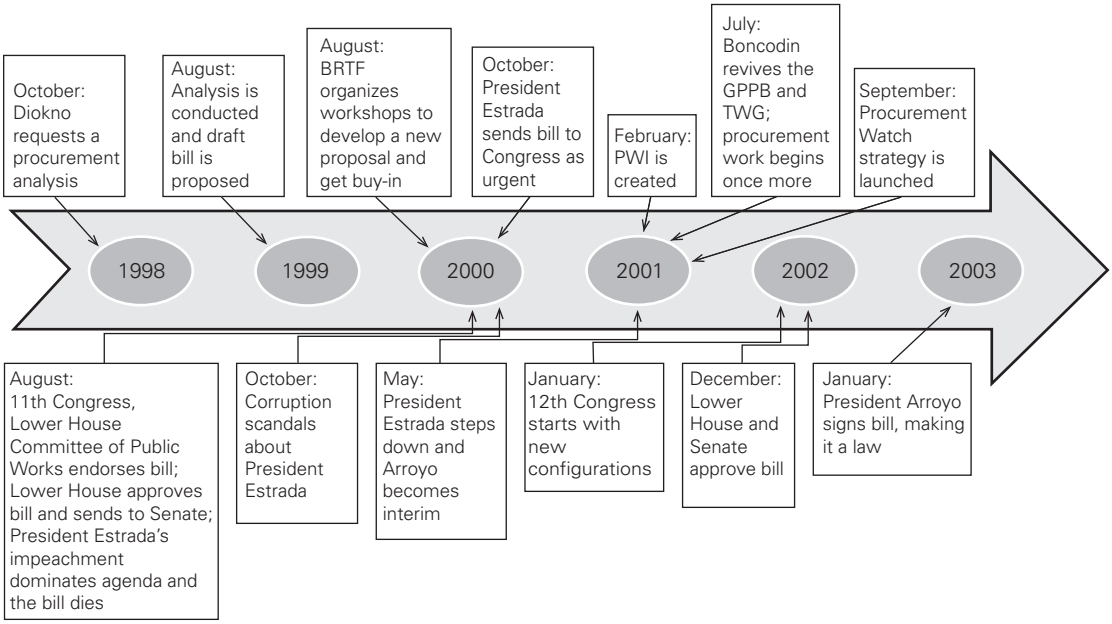
Identifying the Problem

According to Transparency International, in the early 1990s the Philippines was among the most corrupt countries of East Asia. Corruption took many forms, flourishing in many sectors of the country; procurement was one of the venues where corruption thrived (Social Weather Station, 2002). With contradictory procurement regulations that allowed opportunities to award corrupt contracts, companies winning public contracts were rarely the most efficient, qualified, or cost effective. By paying bribes to government officials, a company could earn a contract and deliver costly but poor services to the people. As a result, the general public received suboptimal services and goods.

Timeline of the Reform Passage

Reform of government procurement in the Philippines involved multiple actors and occurred over a period of at least five years (see figure C.1) (Cabañero-Verzosa and Garcia 2009). The following sections integrate political-economy concepts to describe how passage of reform legislation was ultimately achieved.

FIGURE C.1 Five-Year Timeline of the Philippines Procurement Reform



Graph adapted from Cabañero-Verzosa and Garcia 2009, 85.

Round One

In 1998, Benjamin Diokno saw a window of opportunity for a reform path. As head of the Department of Budget and Management (DBM), Diokno understood how the existing rules and laws governing the procurement processes created opportunities for clientelistic bids. Determined to work toward a solution, he began by requesting the help of the U.S. Agency for International Development (USAID) in conducting an analysis to better understand the procurement system. Based on this study, the analysts would draft a bill to streamline the public procurement system.

With much enthusiasm, USAID hired two consultants to develop a rigorous analysis and draft a bill proposal. Soon a complication arose. Both consultants had previously worked in countries where top-down leadership was the most effective method of change. In the Philippines, by contrast, individualism is very strong. Because different agencies and bodies have differing incentives, it is difficult for them to come together with one voice. Perhaps based on prior experiences, the consultants failed to engage the DBM staff during the development phase of the analysis, which generated discon-

tent and lack of support. In great need of buy-in, Diokno urged his Budget Reform Task Force (BRTF), and later the Technical Working Group (TWG), to organize a series of workshops where staff could critique the analysis and create their own draft of a procurement law. As BRTF expected, the workshops provided opportunities for staff and bureaucrats to participate and created a sense of ownership and support for the bill. This approach, used frequently throughout the entire reform effort, coincides with the chapter 7 strategies for solving information asymmetries and generating trust among coalition members (chapter 9).

The new collaborative draft was sent to President Joseph Estrada, who had a variety of incentives to support this bill. First, his campaign emphasized budget reforms and transparency. Second, he was facing corruption accusations that were increasingly threatening his incumbency. Presumably hoping to demonstrate a credible commitment (see chapter 8) to campaign promises in advance of the election, scheduled only five months away, the president gave legislative priority to the bill.

After gauging the president's interest in supporting the bill, the Budget Department's Legislative Liaison Office identified the congressional committee that would have the capacity and will to work towards reform. The team found the perfect match for the job and sent the draft to the Committee on Public Works. This decision stemmed from the fact that Congressman Neptali Gonzalez II, a member of the Committee, had previously initiated a related bill on government contracting regulations and sanctions for noncompliance. Acknowledging the similarities of both versions, Congressman Gonzalez II agreed to sponsor the legislation and substitute it for his original bill. Because this original draft was already scheduled for debate, the reform team was not only able to find a strong supporter, but was also able to insert the bill for prompt debate. It is also important to note, in line with our observations in Chapter 5, that during the initialization phase, the reform team kept a relatively low profile in order to prevent vested interests supporting the status quo from blocking their efforts.

Time dynamics were an important part of this decision, with reformers using windows of opportunity (see chapters 4 and 11) to incentivize politicians to commit. Specifically, the draft discussion coincided with highly publicized calls for the president's impeachment on allegations of corruption. Essentially, the team hoped that the bill's anticorruption flavor would motivate legislators to support the measure to increase their popularity and credibility with the general public. In addition, political competition generated by the upcoming election made politicians eager to distance themselves from the unpopular president by calling for reform. (Chapter 4 discusses the influence of political competition on the likelihood of institutional change.) Con-

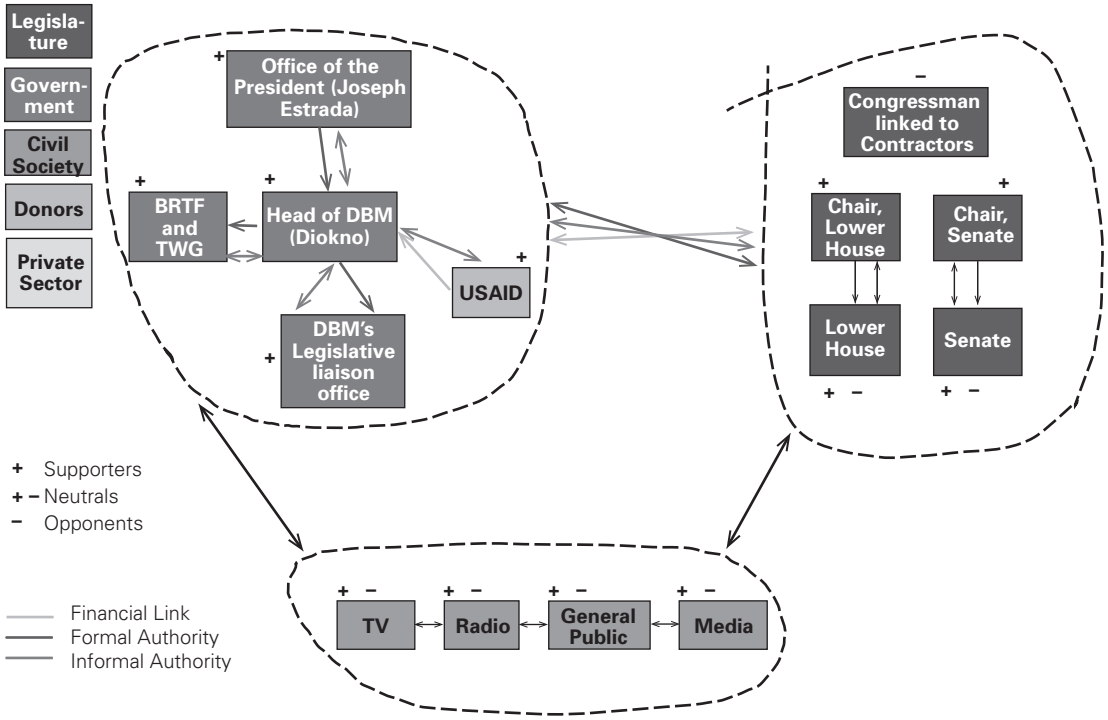
sequently, the proposed measure had immediate acceptance in the committee. Now that the influential Committee on Public Works had accepted to sponsor the bill, the next step entailed finding the right time to bring it to the floor of the Congress and secure approval. Congressman Gonzalez II, a seasoned agenda setter, was able to significantly influence the scheduling of the bills for floor debate, and waited until most opposing legislators were absent to introduce the Procurement Reform in Congress. This strategic move presents a powerful illustration of the agenda-setting mechanism discussed in chapter 5: reformers waited for the right time and took advantage of institutional rules governing voting in order to move forward. In this concrete case, agenda setting allowed for the bill to receive unanimous approval.

Once Congress had approved the bill, the draft went to the Senate, where majority floor leader Francisco Tatad worked to identify another committee willing to sponsor it. This time, in the second chamber, the senators were less eager to work on the bill, as the presidential impeachment trial as well as their individual incentives to survive electorally by credibly dissociating themselves from corruption allegations loomed high on the horizon. As a result of lack of interest in the legislation, the bill died in the Senate. This meant that during the next congressional session, the reform project would have to start from scratch to gather approval from both Lower House and the Senate. Figure C.2 details the involvement of various actors in the first round of legislation.

Round Two

Significant changes occurred from the time of lost momentum until the beginning of the new Congressional session. In May 2001, President Estrada resigned. Vice president, Gloria Macapagal-Arroyo succeeded him as the interim president of the Philippines. The Lower House and the Senate reshuffled most influential positions. With these tectonic shifts in the background, Emilia Boncodin was now asked to serve as the DBM's secretary. Boncodin saw her appointment as a renewed opportunity to further the procurement bill, and thus asked undersecretary Laura Pascua, to manage the reform process. As a result, Boncodin and Pascua worked jointly to reactivate the Government Procurement Policy Board (GPPB) and to prepare an executive order that would consolidate the desired changes with a set of new rules governing consulting services. This strategy aimed at increasing support for the bill, especially from those who were promoted by the new administration. The team also decided to revive the Technical Working Group (TWG). After two months of intense weekly meetings held by the TWG, the GPPB approved the new draft. On October 8, 2001, and following GPPB's approval,

FIGURE C.2 Round 1 Net Map: Who Influenced the Passage of the Procurement Reform Law?



Source for the graphic tool: NetMap, Schiffer 2012.

interim president Arroyo, who signaled commitment to improving governance in the Philippines, signed Executive Order 40.

The effective delegation of tasks that is apparent in this round—particularly with regard to the various bureaucratic units, the DBM and GPPB—can be partially explained by a greater alignment in policy preferences between President Arroyo and the Lower House, than under the leadership of President Estrada. The work of the DBM helped create this preference alignment, which in turn translated into expanded delegation to the agency (see chapter 6 on the principal-agent theory). In other words, civil servants at the DBM, as reform actors, correctly identified the changing political space and were able to react effectively.

Several chapters of the handbook suggested that *monitoring and sanctioning* are essential solutions to collective action problems, correctors of information asymmetries in principal-agent relationships, and effective mechanisms of credible commitment. Neutral third parties can often fulfill effective

roles of 'fire alarms' or 'police patrols' that make sure that ex-ante policy commitments are not reneged upon. Let's see what happens in the procurement reform story. While passing the bill was a major accomplishment, the BRTF and the Technical Assistance Team were aware of the important role that a nongovernmental organization would play in monitoring implementation and compliance with the law. To this end, Procurement Watch, Inc., established in 2001, had the main mission to "fight corruption in public procurement" (Campos and Syquia 2005, 6).

To develop credibility and build a platform among key stakeholders, the organization invited respected civil society representatives to become part of the Procurement Watch Board. Its staff became highly involved in the deliberations of the new bill. Eventually, Procurement Watch, in addition to playing the role of a third party monitor, also became an important vehicle for solving collective action problems among civil society representatives and bureaucrats interested in reform, stemming from missing information and lack of credibility (see chapters 3 and 9).

Collective action was realized through Procurement Watch's interaction with stakeholder groups and the media (see table C.1). Getting the omnibus procurement law passed required sufficient public support for the bill. Procurement Watch brought together the support of key civil society organizations and increased the salience of the issue related to corruption in public procurement through various media platforms: print, radio, and television.

TABLE C.1 Stakeholder Map for the Philippines Procurement Reform

Stakeholder	Benefits from reform?	Resources	Intensity of preferences	Incentive for mobilization (resources × intensity)
Government reform teams	Yes	High	High	High
Donors	Yes	Medium	High	Medium
Investigative media	Yes	Medium	Medium	Medium
Big contractors	Yes	High	High	High
NGOs and CS	Yes	Low	Medium	Medium
General public	Yes	Medium-low	Medium-low	Low
General media	Yes	Medium	Low	Low
Church	Yes	Medium	Medium	Medium
Legislators linked to contractors	No	High	High	High

Source: Authors.

Why this strategy? Chapter 7 discussed the example of increased government responsiveness to flood damage triggered by media exposure. It also suggested that media impacts political incentives on a two-way street. On one hand, an informed public is likely to formulate demands for greater accountability; on the other hand, increased issue salience and visibility attracts politicians because of electoral credit taking opportunities. In this case, Procurement Watch skillfully appealed simultaneously to both targets: the general public and individual politicians. The organization worked to educate civil society about the importance of the new legal changes and helped gain public support from major stakeholders such as youth (students and associations), the Catholic Church, private sector groups represented by chambers of commerce, media outlets, and civil society organizations (including the Transparency and Accountability Network). As a result, attempting to take advantage of increased visibility that media coverage could bring, individual politicians hurried to associate themselves with the procurement measure These partnerships brought enough public support (mobilization) to pressure lawmakers into considering the bill.

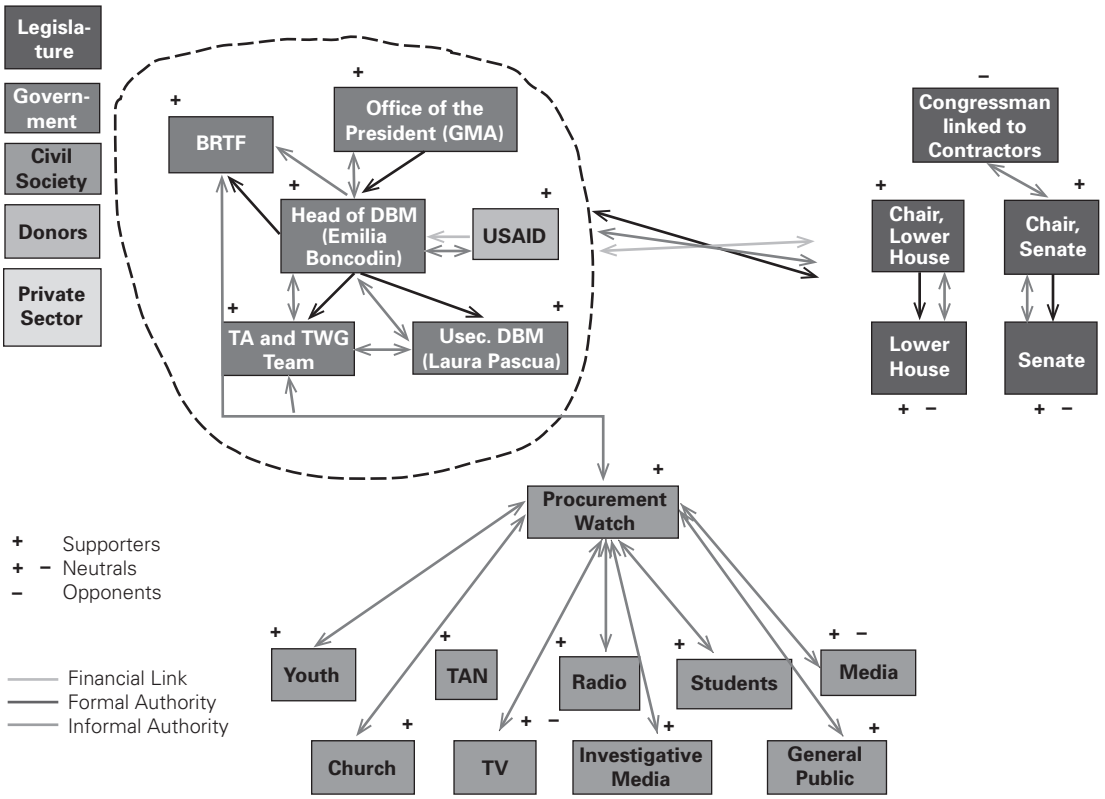
The reform team had to think strategically about its next steps, under conditions of a shifting political landscape in both Chambers of Congress. During the new administration, the two chambers of the legislature had a more balanced power distribution, but opposition was much more unified (see chapter 4). Reformers approached legislators from both major competing parties, the National People's Coalition Party and the Philippine Democratic Party, and convinced an influential senator to sponsor the bill jointly. This strategic arrangement allowed the media team to portray the bill as a bipartisan effort and successfully minimized the risk of interparty conflicts that would hinder the passage of the reform (Campos and Syquia 2005, 23).

During the opening debates taking place in the Lower House, Speaker Jose de Venecia firmly endorsed this version of the bill. Then, he entrusted the project to his colleague Congressman Rolando Andaya Jr., chairman of the Appropriations Committee. Congressman Andaya immediately decided to assign senior bureaucratic staff to the secretariat of the Congressional Technical Working Group, and requested that the technical assistance (TA) team be incorporated in the secretariat as well. After numerous work sessions, the Congressional Technical Working Group developed a draft submitted to the Lower House on May 16, 2002.

Once again, Congressman Gonzalez II was now waiting for the right time to introduce the bill to Congress (see chapters 5 and 11). Because several key legislators strongly opposed the reform, Gonzalez decided to wait five months to schedule the debate for a day when a majority of the quorum of the legislators in attendance favored the bill. His agenda setting strategy was again successful and the bill passed with a large majority.

Three different senators sponsored several versions of the bill in the Senate. To aid the passage, the TA team and the BRTF sought Senator Edgardo Angara's endorsement, given his status as a powerful member of the opposition and the leader of the legislative caucus. With the help of Senator Angara's chief of staff and chief policy adviser, the TA team arranged a meeting between Senator Angara and Secretary Boncodin. The meeting was highly successful, resulting in Senator Angara's endorsement. Senator Angara assigned his staff to work with the three entities—the TWG, the TA team, and Procurement Watch—to craft a Senate version of the new legislative project. He then submitted a comprehensive report which covered the new Senate Bill and attracted considerable media attention. Two months later, the Senate floor debated the bill, voted and approved it. Figure C.3 details the involvement of various actors in the second round of legislation.

FIGURE C.3 Round 2 Net Map: Who Influenced the Passage of the Procurement Reform Law?



Source for the graphic tool: NetMap, Schiffer 2012.

Furthermore, given that two versions of the bill adopted in the two chambers required reconciliation, the Bicameral Conference Committee convened to consolidate them and negotiate differences. The resulting version was approved by both houses, with an added provision that emphasized implementation oversight for the law for an initial period of five years. This final version of the bill was signed on January 10, 2003 by President Arroyo. Thus, after a long saga, the Consolidated Procurement Reform Bill finally became law.

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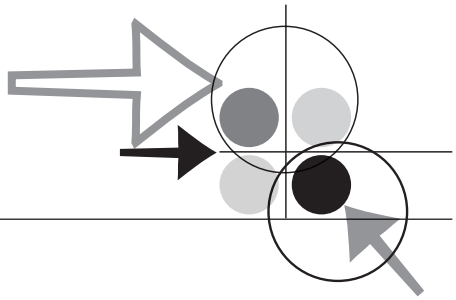


APPENDIX D

Political-Economy Homework Exercises

This homework is designed to reinforce the learning outcomes from the classes (especially with respect to coalition building), provide a benchmark on how to write a case study, and facilitate teamwork.

You will be randomly assigned into groups of five to complete the homework. It is important that you work on these exercises together. You will each be given a "character card." During some of the homework exercises, you will use the information on these cards to role play to illustrate the complexity of the coalition-building process. When the homework does not use the role-playing cards, you can assume that you are not trying to act in character. The materials needed include group instructions and character cards.

Please note: Homework should be distributed after each relevant exercise. Do not distribute all homework together as this may affect the learning outcomes.

Exercise 1: The Commonwealth of Rationaltopia

Group Briefing: *Read this information as a group. Then each one of you should read your individual card for 2 minutes. After doing so, go around the table and individually discuss your character's policy preferences. Once this process is complete, fill in the answer sheet as a group.*

The Commonwealth of Rationaltopia is a developing country, which has been independent for the last 60 years. Since independence, the commonwealth has been characterized by the following:

1. *Structural changes in government*. Within only a few decades, the commonwealth has shifted from a parliamentary form of government, to a presidential form of government, to a semipresidential form of government, and now back to a full presidential system. The current president sees himself (or herself) as the leader of the nation and the region and is very keen to pursue a proactive defense and foreign policy. The president does not want to be entangled with the "petty" considerations of domestic politics.
2. *Clientelism in elections*. The parliament is hampered by infighting and deadlock. Each legislator seeks to provide supporters with benefits in the form of tangible material handouts throughout the electoral cycle. All seem to care about being reelected, but none seems interested in making long-term policy to benefit anyone beyond their supporters.
3. *An insulated bureaucracy*. In contrast to the legislature, the bureaucracy is a source of stability. While retention of bureaucrats has ensured that someone is responsible for enacting national policy, this insularity has also resulted in allegations of gross inefficiency and corruption.
4. *Divided civil society organizations*. While there are some very dynamic organizations in civil society, they tend to be split geographically (and therefore linguistically and religiously). Many organizations operate in either the south or the north of the country but not in both regions.
5. *Politicized private sector*. Although the developing status of the Rationaltopia means that there are some booming businesses (e.g., tourism, mining, and agriculture), other businesses, especially small businesses without political connections, are struggling to establish themselves. In particular, some members of the business community argue that political connection and not business acumen determines everything from how long it takes to get a business license to who gets selected for government procurement services.

Participant 1: Character Card A

You are president of Rationaltopia. You have always known that you were destined for greatness. You feel that, no matter what domestic sacrifices have to be made, it is your duty to the people of Rationaltopia to maintain a strong military and a proactive foreign policy.

When it is your turn to speak, introduce yourself as the president of Rationaltopia. Try to convince everyone that your vision is sound and that the long-term benefits of pursuing an active foreign policy—such as security and good relations with neighboring states—are in everyone's interest.

Participant 2: Character Card A

You are a member of parliament (MP). You are fed up with everyone blaming the inability of elected politicians to get along and develop coherent policy. You work very hard to make sure your supporters receive any benefits you can deliver for them. After all, isn't that your role—to look after the people who elected you?

When it is your turn to speak, introduce yourself as a member of parliament. Try to convince everyone that MPs, such as yourself, are doing a good job in looking after the people who voted for you. It is unfair to be branded irresponsible just because you don't want to divert resources away from your supporters. Everyone in Rationaltopia has the vote, so if other people want something, why don't they ask their MP instead of blaming MPs and parliament as a whole?

Participant 3: Character Card A

You are a senior civil servant. During your career you have been responsible for ensuring that Rationaltopia has the expertise to develop and implement public policy. Everyone considers the bureaucracy to be insular, inefficient, and somewhat corrupt. No one seems to appreciate the fact that without it, all those short-termist members of parliament and presidents with delusions of grandeur would have run the country into the ground long ago.

When it is your turn to speak, introduce yourself as a civil servant. Remind everyone just how critical your work is. The civil service is not just there to create red tape; in fact, the civil service has kept Rationaltopia functioning every time the political system has gone into a tailspin.

Participant 4: Character Card A

You are the head of a small nongovernmental organization (NGO) whose aim is to promote awareness about the exclusion of the poor across the country. However, apart from the fact that most politicians and policy makers are too busy to listen to you, you also face a challenge that people from the north and the south do not trust each other.

When it is your turn to speak, introduce yourself as a head of a poverty-focused NGO. Express your concern that, apart from the fact that politicians don't seem to care about the very poor (who generally do not vote), southerners and northerners are unwilling to come together to resolve common issues like poverty.

Participant 5: Character Card A

You are the head of the Small Business National Chamber of Commerce. You are very worried that a growing number of existing businesses seem to be using their links to MPs or civil servants to obtain advantages over other firms. This skewed form of competition is not just unfair to new businesses but also to the public, who end up paying higher prices for poorer-quality goods and services.

When it is your turn to speak, introduce yourself as the head of the Chamber of Commerce. Let the other participants know that you see new businesses as an important engine of growth in Rationaltopia but that you are concerned about the increasingly unhealthy relationships among business executives, politicians, and bureaucrats.

Group Work

Once all group members have introduced their characters, think about and discuss the following questions together. Record your answers below.

1. Which characters represent formal institutions?
2. Which character is policy seeking (wants to implement her policy no matter what)?
3. What factor seems to be driving the profits of some of the firms in the country?
4. Which character is election seeking (wants to keep her position no matter what)?
5. What role do cultural groups (even informal institutions, including bonds of trust) appear to have in the development of civil society?
6. Which character thinks a little that corruption is not such a bad thing?

Exercise 2: The Budgetary Process in Rationaltopia

Group Briefing*: Read this information as a group. Then, individually, rank your budget priorities (on the Individual Instructions page) according to the character card assigned you in exercise 1. When you are finished, record the preferences of each character (on the Group Work grid) and discuss your findings.*

According to Rationaltopia's constitution and laws, the budget is developed by parliament (which must pass it by a simple majority). Once approved by the president, the budget is implemented by the civil service. The implementation is supposed to be overseen by parliament's Public Accounts Committee.

In practice, the budget is proposed by the president. Parliament usually does not add significant amounts of additional expenditure but, depending on who is in charge, does seem to divert a significant amount of money to projects favored by key supporters. In particular, the south of the country, which is more developed and has more people (and thus more votes), appears to do disproportionately well from allocations.

With respect to implementation, the Public Accounts Committee does not seem to be working very well. The committee convened only once last year (so that its members could receive their committee allowances). This means that the bureaucracy is not supervised in implementing the budget. The perception that some bureaucrats are developing "cozy" relationships with businesses is now considered a fact.

There are five main items in the budget and thus five possible alterations:

1. Defense and foreign affairs expenditure
2. Discretionary spending for miniprojects allocated by parliament
3. Money for the procurement and delivery of large domestic projects (administered by the relevant departments)
4. Money for welfare spending (for schools and health clinics), currently allocated so that, per capita, southerners obtain more funds)
5. Tax cuts and deductions for businesses.

Individual Instructions

As your character (from the previous exercise), rank the budget options according to your perceived priorities. Give the item you would like to achieve the most a 1 and the item you care least about a 5.

Budget item	Rank (1 = *most preferred*, 5 = *least preferred*)
Defense and foreign policy	
Parliamentary discretionary spending	
Large project procurement	
Money for welfare spending	
Tax cuts and deductions	

Group Work

Decide on a volunteer recorder. As a group, go around the table and discuss the preferences of the different characters. Record the preferences on the grid.

Budget item	President	MP	Bureaucrat	NGO Head	Head of Chamber of Commerce
Defense and foreign policy					
Parliamentary discretionary spending					
Large project procurement					
Money for welfare spending					
Tax cuts and deductions					

After this process is complete, discuss to what extent the characters agree over the budget priorities Rationaltopia should adopt. Then address the following questions:

1. Do you think that members of parliament who decide to sit on a committee have typical characteristics of an MP, or are they likely to be a self-selected type?
2. Does the behavior of Public Account Committee members in this case sound like a case of moral hazard or adverse selection?
3. Why would a parliament want to establish a committee to specialize in public financial oversight?

Exercise 3: The Emergence of a Better Budget?

Group Briefing: *Read this information as a group. Then discuss the question that follows.*

Given the huge gulf between how the Rationaltopia budget should be implemented and how it is being implemented in practice, a group of concerned citizens and donors would like to organize a committee to generate ideas about how to improve budget formulation and implementation.

The group has two options for the composition of the committee's membership:

- A random but representative sample of citizens
- A group of civil society, public sector, and private sector leaders who are considered experts in the nature of public policy making.

Regardless of how it is composed, the committee will have access to a group of international experts who will help identify international best practice and the feasibility of different options of budget response.

As a group, discuss and make notes on the following question:

- What are the benefits and pitfalls of letting a representative sample of citizens make decisions rather than delegating to a group of experts?

Exercise 4: The Committee Comes Up with a Proposal

Group Briefing: *Read this information as a group. Then read your new individual card for 2 minutes. (You should keep the same character as in the previous exercises.) Discuss the proposed reform as a group and take a final vote. After recording your vote results, talk about the final question and summarize your conclusions in the space provided.*

Having decided to adopt a hybrid model (including both a random set of citizens and a hand-selected group of policy-making leaders), the committee convened and has now come up with a set of recommendations for the budget process. These include a recommendation to introduce a participatory budgetary procedure; that is, to give ordinary citizens the right to be consulted and make authoritative decisions on the budget. This proposal is being widely reported in the media and is gaining traction as a viable solution for the budget situation.

After reading your character cards, discuss the proposal as needed, vote, and record your votes below.

	Yes	No	Conditional
The president			
The MP			
The bureaucrat			
The head of the NGO			
The head of the Chamber of Commerce			

Once you have voted, discuss whether the opposition of the different characters will keep the reform from passing. Summarize your conclusions below.

Participant 1: Character Card B

As the president, you are indifferent to whether this proposal becomes law. After all, you have more important defense and foreign policy issues to deal with. If parliament ratifies the new law, you will not veto it—why agitate anyone?—but if parliament does not, this is of no concern to you anyway. You have a region to stabilize.

Participant 2: Character Card B

As an MP, you are aghast at this proposal. How will you be able to target resources toward your loyal supporters if people who may not help your reelection can alter the budget? You must stop this silly proposal from ever becoming law.

Participant 3: Character Card B

As a career civil servant, you know that having to deal with the "bright ideas" of even more uninformed people is the last thing you need.

Participant 4: Character Card B

As the head of an NGO working with the marginalized, this reform is potentially great news. Finally, the politically marginalized, low-income citizens will have an opportunity to make their voices heard. Of course, it will be important to ensure that the north is provided with the same opportunities as the rest of the country. But despite these reservations, you are an avid supporter.

Participant 5: Character Card B

As head of the Small Business Chamber of Commerce, you are concerned, on the one hand, that the uncertainty generated by a participatory budget procedure may adversely affect the business environment. On the other hand, if this makes it more difficult for politically privileged businesses and bureaucrats to collude and unfairly deprive new businesses of opportunities to grow, then maybe it's not such a bad thing. You are probably going to come out in favor.

Exercise 5: A Tentative Coalition Emerges

Group Briefing: *Read this information as a group, discuss the questions, and record your answers.*

It has been a few months since the participatory budget proposal was first launched, and a few actors are trying to come together to support its realization. Many of the supporters of this process are pro-poor NGOs and small businesses. The most vigorous opposition is emanating from politically active citizens from across the political spectrum who have traditionally enjoyed privileged access to parliament and the bureaucracy.

As a group, discuss and record your answers to the following questions:

- How easy is it to build a coalition between actors with very different experiences (small profit-making businesses and NGOs)?
- What kind of coordination or collective action problems might such a coalition face?
- How might opponents of the reform try to split the coalition, especially given their additional financial resources? (Hint: Think about the definition of corruption.)

Exercise 6: Building the Coalition

Group Briefing: *Again, read this information as a group, discuss the questions, and record your answers.*

Despite attempts by opponents to bribe some of its members, the coalition in favor of the participatory budget proposal is gaining traction. However, to secure passage in parliament, the coalition needs to communicate that it enjoys the support of a broad majority of citizens—unlike the opponents of the reform, who are a (very) vocal minority.

As a group, talk about how the following factors might help the nascent reform coalition achieve its objective or prevent it from reaching its goal. Record your discussion below.

- Currently, the coalition conducts its business through a council in which different stakeholders have the same power. How might developing a clear leadership structure affect the group's efficacy?
- Would the coalition benefit from using opinion polls and strategic communication techniques to dispel the appearance that the measure does not have broad appeal?

Exercise 7: Coalition Case Study

Group Briefing: *As a group, compile the information from the previous exercises into a case study presentation. If your instructor indicates that PowerPoint is available, consider creating slides; if not, think about other visualizations that might enhance your presentation.*

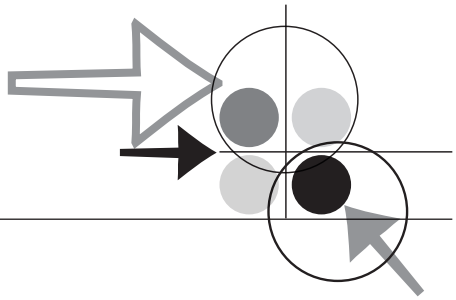
Use the following questions as a guide:

- Who are all the relevant actors?
- How does the institutional context affect the policy-making environment?
- What stakes do different actors have in the reform process?
- How can reform actors coordinate to develop a reform coalition?
- What kind of leadership structure or other activities can the coalition use to enhance its effectiveness?

The timing of reforms is also critical to success. Think about how the following events might affect the activities of the coalition. Then incorporate into your presentation how the coalition might deal with these events:

- Upcoming elections (in the next few months)
- Antireform actions (protests, communication campaigns, and the like) organized by powerful antireform groups
- The growing perception in the international epistemic community that participatory budgeting constitutes a sound reform that can enhance accountability
- Civil war in a neighboring country; the president commits Rationaltopia's army for peacekeeping, thus necessitating higher defense expenditures
- Economic crisis with global markets losing tolerance for opaque budgeting processes (demanding higher interest rates from countries that have poor budget practices).

Present your case study as a group during class, as scheduled by your instructor.



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Effective Policy Making

Workbook One:

Justification and Set Up

Policy Innovation Unit

INTRODUCTION

This workbook is the first in a series of five which seeks to provide a practical overview of the key steps in the policy development process as outlined below:

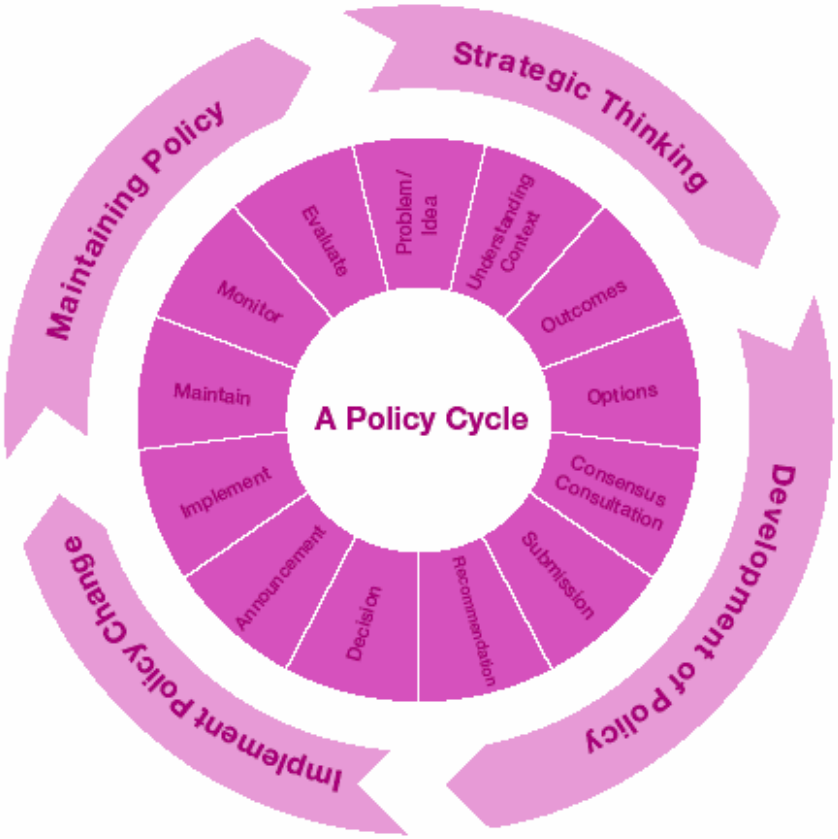
Workbook:	Key Areas Addressed:
1. Justification and Set Up	Establishing the Need for Policy Intervention Planning Your Approach and Engaging Stakeholders
2. Developing and Analysing the Evidence Base	Gathering the Evidence Analysing the Evidence Presenting the Analytical Report Agreeing the Aims and Objectives
3. Identifying and Appraising Policy Options	Identifying Policy Options Costs, Benefits and Risks Appraising the Options
4. A Practical Guide to Impact Assessment	Defining the Aims Screening the Policy Assessing the Impacts Consultation Prioritising the Impacts Agreeing Recommendations and Implementation Decision and Publication of Report on Results of Impact Assessments Monitoring and Evaluation
5. From Consultation to Announcement	Formal Consultation Exercise The Submission

Announcing the Decision

Each workbook seeks to provide practical guidance and draws on existing guidance material and best practice, in particular *A Practical Guide to Policy Making in Northern Ireland*. The workbooks are intended as an introduction and a reference point for more detailed guidance. They are structured around the key stages of the policy development process to enable policy makers to dip into the guidance as appropriate.

In using the workbooks it is important to acknowledge that the policy process is cyclical and continuous as demonstrated in Figure 1 below. Policy makers rarely if ever start with a clean sheet and as we work though the process it is often necessary to consider the other stages. Therefore, it is advisable that before using the workbooks you familiarise yourself with the contents and the key messages of the Practical Guide.

Figure 1: The Policy Cycle



What is Policy Making?

Policy making is the process by which the administration translates its vision into actions to achieve desired outcomes. Good policy making is therefore essential if government is to achieve its aims and deliver real change and benefits.

There is no single uniform approach to policy making which can be applied to all areas and all departments. The range of factors and the environment within which policy makers operate can vary considerably. The policy maker may be addressing a regional, local or even international issue. They may need to consider any number of social, economic or environmental factors. There may also be considerable variation in the resource consequences of the policy and the number of groups or individuals which the policy may impact upon. However, there are a number of broad steps or stages which can be applied to most policy areas and these are outlined in this series of workbooks. The key is to tailor the policy process to needs.

CONTENTS

1.1 ESTABLISHING THE NEED FOR POLICY INTERVENTION

- **Exploring the Issue**
- **Identifying the Drivers and Decision Makers**
- **Clarifying the Context and Establishing the Need for Intervention / Rationale**

1.2 PLANNING YOUR APPROACH AND ENGAGING STAKEHOLDERS

- **Establishing the Project Team**
- **Engaging Stakeholders and Developing the Consultation Plan**
- **Developing the Project Plan**

1.1 Establishing the Need for Policy Intervention

Policies and strategies in Northern Ireland are developed in the context of competing and growing demands on public expenditure. It is important that actions and resources are targeted where they are most needed and will have greatest impact. Therefore, at the outset of the policy process, policy makers should demonstrate a clear need for intervention or policy development. A key part of justifying the project is to be very clear about the nature and scope of the issue or the problem the policy will seek to address.

In light of this, the first step in the policy process is to clearly identify the issue, the factors that are driving demand for action, and to establish whether there is a potential case for intervention.

There are a number of steps in the process. These are categorised under three broad headings:

- Exploring the Issue
- Identifying the Drivers and Decision Makers
- Clarifying the Context and Justifying Intervention

The aim of these steps is to assist the policy maker in developing an understanding of the issue and placing it in a wider strategic context. This is of critical importance to all subsequent stages in the policy process, from establishing the aims and objectives through to evaluation. It is therefore important to spend sufficient time at this stage considering the context and establishing the rationale for the policy.

EXPLORING THE ISSUE

Step 1: Identify the issue

The first step in any policy process is to clearly identify the problem or issue which the policy will seek to address. Many policy areas can involve highly complex and often cross-cutting issues. Clearly outlining the issue to be addressed at the outset helps to ensure focus and avoid confusion at a latter stage in the process.

Step 2: Why is it a problem? What are the underlying causes of the problem?

It is also very important to understand why it is a problem and why there is a need for intervention. Partly, this is to ensure that the policy maker is actually addressing a real problem, but it also helps to ensure that potential solutions are identified and that actions are focused where they will have most impact. We also need to know what the causes of the problem are; finding the cause of the problem is crucial if appropriate solutions are to be arrived at and subsequent actions are to be targeted where they will do most good.

Step 3: What groups does the issue impact upon?

Section 75 of the Northern Ireland Act 1998 requires that consultation is an integral part of the policy-making process and that all persons likely to be affected by a policy should have the opportunity to engage with the public authority.

It is, therefore, important at the outset to identify those groups or sectors that the policy issue impacts on. This will help in the development of the consultation and engagement strategy outlined in Section 1.2 of this workbook and in undertaking any subsequent impact assessments.

IDENTIFYING THE DRIVERS AND DECISION MAKERS

Step 4: **Who within the administration has decision making authority on the issue? What is the driver for intervention? Does the administration have authority to intervene?**

A key early task is to identify who within the administration is ultimately responsible for decision making on the issue. This is most likely to be the relevant minister or senior official. Their input should be sought at the outset and throughout the project. Clarifying who has decision making authority helps ensure that the project is led by the appropriate department and business area. If the matter is not devolved, the administration will not have the authority or powers required to frame a policy. However, in this context, Ministers may still have a stated view to promote or they may seek to influence decision makers at Whitehall or in Europe.

CLARIFYING THE CONTEXT AND JUSTIFYING INTERVENTION

Step 5: **Establish the administration's current position**

At the outset, it is essential that you clearly establish the administration's current position on the issue. It is useful to consider the impact that the existing policy has had. This will help to indicate whether intervention is likely to impact on the issue.

Step 6: **How does the issue relate to the administration's strategic priorities and goals? Will addressing the issue contribute to the realisation of strategic objectives?**

Step 7: **What policy instruments could be utilised to address the issue? Can the resource requirements be estimated?**

Policies can be delivered using a range of policy instruments, both legislative and non-legislative, including regulation (for instance by licensing); the encouragement of voluntary change (including by grant aid); direct public service provision or the provision of information, education and advice. It will not be possible at this stage to develop robust costs for the project. However, an initial estimate should be made of the resources required to develop and deliver the policy. This is only an initial estimate and the policy maker will revisit these estimates as they work through the process and develop proposals.

Step 8: **Is there a case for government intervention?**

Here we are only making a preliminary assessment as to whether there is a case for intervention and also – considering previous experience, indicative costs, government priorities and the availability of funding – whether intervention is likely to have an impact on the issue.

Step 9: **What impact assessments may be required?**

Impact assessments are a basic component of best practice in policy making, and are essential tools to employ when considering the effect of a range of different proposals.

To be effective, the process of impact assessment should begin right at the start of your policy project. At this stage you should familiarise yourself with the range of impact assessments which may be required – see Workbook

Four – and consider which areas your policy might impact upon.

To assist in this regard it is useful to undertake an initial screening of the policy area, utilizing the impact assessment screening exercise contained in Workbook Four. The outcome of this initial screening exercise will help identify the evidence gathering requirements of the policy, as outlined in Workbook Two, and will also help to guide early thinking on the development of policy proposals, as outlined in Workbook Three.

Output

At this stage, it is very useful to draw up an initial paper. This paper will feed into the development of the project plan and can also be used to focus initial thinking in the evidence gathering stage. The framework below is only intended as a guide and should be adapted as appropriate to meet the needs of the policy team.

i. Define the issue / problem to be addressed
ii. Consider why there is a need for intervention and the underlying causes / sub-issues to be addressed
iii. Identify the key stakeholders
iv. Identify the driver for the project and the key decision maker
v. Establish the current policy position and any work to date on the issue
vi. Identify how the issue relates to wider priorities and objectives
vii. Consider what policy instruments could be utilized and the anticipated resource requirements
viii. Determine if there is a case for intervention.

Planning Your Approach and Engaging Stakeholders

Before embarking on any policy, programme or project, it is important to give adequate consideration to how it will be managed and resourced. Some aspects of the policy making process are very time-consuming, and effective planning is essential. For example, it is important to take a realistic view of timescales for consideration of policy proposals by Ministers. The recommended period for a public consultation exercise, especially one involving an Equality Impact Assessment, is 12 weeks. And, if legislation is required to implement a policy, this can add considerably to the time taken from initial idea to implementation. It is very easy to under-estimate the time and effort which will be required to introduce a new policy, or review an existing one, and inadequate planning can lead to failure to deliver.

It is necessary to consider carefully what resources will be required. This relates not only to the branch or team responsible for the programme but also to the potential involvement of professional advisers from a range of disciplines such as natural and physical sciences, social sciences, economics and statistics and the arts and humanities. Such specialists need to be alerted early so that their work programmes can take proper account of the department's needs. Where appropriate, consideration should also be give to obtain the experiences of other countries and regions especially if they have experience of, or are likely to be affected by, the issues under consideration. It is important to ensure that implementation issues are integrated into policy development from the start.

It is also important to identify information requirements. Recognising the wide range of competing priorities for funding and the need for effective solutions, good policy making will be based on evidence setting out what the need is and potentially evidence surrounding how best to intervene to meet the need also.

As such, the policy process can become highly complex and time consuming, it is therefore essential that time is spent at the outset planning the project. There are three key stages in the process as outlined below:

1. Establishing the Project Team
2. Engaging Stakeholders and Developing the Consultation Plan
3. Developing the Project Plan

1. Establishing the Project Team

It is likely that many of the initial tasks of justifying, planning and defining the scope of the project may have been conducted by one or two individuals, one of whom may be earmarked as the future team leader. However, as momentum builds behind the project, a full team will need to be established to take on the growing workload. A team with the right mix of skills and experience will bring insights and fresh thinking to difficult strategic issues. A roughly equal mix of experts and non-experts, insiders and outsiders, works well in ensuring the right balance of focused analysis and imagination.

In many cases, officials will be constrained in the choice of team members by budget considerations and the availability of staff. However, while recognizing this, there are a number of key issues which need to be considered when recruiting a team. These include:

- team size
- team skills

- **Team Size**

  The size of the team is important – it should be large enough to encourage a mix of backgrounds and skills but small enough for each person to be a crucial part of the team. Relatively small teams, established especially for the project, tend to arrive at better solutions than single individuals or large legacy teams. In general, the larger the group of people, the harder it is for the

group to work well together. Smaller numbers also make team administrative tasks simpler and make it easier to develop a common purpose with mutual goals and mutual accountability. The size and composition of the team is likely to vary over the length of the project, as different phases of work will require different levels of resources and different skills.

- **Team Skills**
  A multi-disciplinary team with the right mix of skills and experience will bring insights and fresh thinking to difficult strategic issues. Considering the appropriate split between civil servants and non-civil servants and between experts and non-experts will help to secure the right combination of knowledge and freshness.

  Before beginning the recruitment process, a team leader may draw up job profiles to help identify the breadth of skills and experience needed in the new team. This may include:

  - specific domain knowledge or expertise in certain subject areas
  - general analytical and conceptual ability
  - specialist statistical and economics skills
  - decision making skills and project management experience
  - interpersonal skills
  - creativity skills
  - delivery experience.

2. Engaging Stakeholders and Developing a Consultation Plan

This section considers the need for consultation and the added value which consultation can bring to the policy process. It deals specifically with the initial task of identifying those groups to be consulted, how

they should be consulted and when. The output of this section can assist policy makers in developing a consultation plan.

The issue of formal written consultation, including guidance on developing a consultation document and analysing responses to consultation, is addressed separately in Workbook Five.

The need for consultation

Consultation enables an assessment to be made of the views of those who are affected by policy decisions or changes to services. It can help policy makers to become aware of issues and problems, which policies may pose for various groups that the organisation might not otherwise discover.

Recognising this, consultation is not an end in itself; rather, it is a key plank of evidence-based policy making. It is also at the heart of Government's commitment to openness and inclusiveness. Where consultation is meaningful and undertaken effectively, it has the capacity to help develop policies which work and create a working partnership with stakeholders. However, done badly, it can also have the exact opposite effect. The Equality Commission for Northern Ireland has set out seven "guiding principles", which should be regarded as the minimum standard necessary to carry out any consultation. These guiding principles are set out in Appendix One. Consultation is also a legal requirement of Equality Impact Assessment (EQIA); indeed, the legislation requires that consultation is an integral part of the policy process. Consultation is also required on proposals for legislation. However, that consultation must be meaningful if it is to meet the requirements of Section 75. Guidance in this regard is set out in the Equality Commission for Northern Ireland's *A short guide to the public sector statutory duties* (2006) or the Equality Commission's *Guide to the Statutory Duties* (Revised February 2005).

The Consultation Plan

Consideration of the following areas will assist in clarifying your objective in undertaking consultation, identifying who needs to be consulted, how they should be consulted and at what stage in the policy process. A "consultation checklist" – to draw together conclusions and frame the consultation plan – is included at page 19 of this workbook.

Objective of Consultation

To be successful, policy makers need to clearly identify the objective of consultation. This may include: finding new ideas; collecting factual data; and determining public opinion. Clarifying the objective of consultation helps the policy maker to decide who they need to consult, how and when.

Who to Consult

Any group that the policy impacts upon should have the opportunity to engage at some stage with the policy maker. Over the course of the policy it is not adequate to exclusively consult with large umbrella organisations and credible efforts must be made to actively engage a wide range of representative groups.

Targeted consultation with representatives of those most affected by a policy can be beneficial, as can targeted consultation with 'experts' in a particular field depending on the objective of consultation.

How to Consult

There are a wide range of methods of consultation. These include:

- Face to face meetings
- Public consultation events
- Representation on policy teams and steering groups
- Research and surveys
- Citizens' Juries

- Community-based activities
- Written consultation exercise (considered further in Workbook Five)

The important point is that there is no one right method that will work for any given circumstances. What works well on one policy may not work on another and likewise, certain methods will work well with certain groups and not so well with others.

It is therefore important to consider:

- your objective in consulting;
- which method will provide the input required; and
- the needs of those to be consulted and what will work for them.

When to Consult

Many policies will require a formal consultation period which often precedes a final decision and should involve the issue of a written consultation document. This is addressed in more detail in Workbook Five. However, at an early stage of the policy process it is necessary to consider whether a 12 week formal consultation period will be required. This will have significant implications for the timescale in taking forward the policy and is likely to require the policy team to develop a document for public consultation. It should also be noted that where the policy results in proposals for legislation, separate additional formal consultation must be undertaken on those proposals.

Formal consultation is required:

- on matters to which the statutory duties are likely to be relevant
- on equality schemes
- on the impact of policies

Consultation and engagement should be undertaken, where appropriate, throughout the policy process and not limited to the formal consultation period. In planning when to consult it is again important to consider the objectives of consultation and the resources available. In the initial stages of the policy process, more focused consultation with key stakeholder groups and delivery bodies can be beneficial.

TEMPLATE 1: Consultation Checklist

Key groups the policy will impact upon – including delivery bodies					
SECTOR	**Groups / Details**	**When Consultation / Engagement should take place**	**Group Special Needs / Requirements**	**Desired Outcome of Consultation / Engagement**	**Appropriate Method(s) of Consultation / Engagement**
Other Northern Ireland Civil Service (NICS) Departments					
Local Government					
Non Departmental Public Bodies (NDPBs)					
Business Community					
Voluntary and Community Sector					
Other					

3. Developing the Project Plan

An accurate and well-maintained project plan is essential to managing the project successfully. Although taking time to plan is crucial to the success of the project, planning is often neglected or rushed in the haste to get onto the more interesting analysis phase of the project, especially when stakeholders or Ministers are keen for project results.

- However, it is vital to do it well.

Taking a step back to develop a project plan before diving into the detail has a number of benefits:

- it helps forge a common vision across the team
- it provides coherency between different strands of the project
- it helps to think through tasks and anticipate potential roadblocks
- it highlights trade-offs on issues of time, budget, breadth and depth of analysis
- it helps anticipate long lead-time activities
- it helps manage key stakeholder expectations of what is in and out of the scope for the project, what the team is doing, and whether the project is on track
- it provides an 'anchor' when difficulties develop.

The plan should go into significant depth on the project's rationale and approach, including how the work will be structured, what the key milestones will be, and how the main risks will be mitigated or minimised. In addition the plan should set out the intended approach for managing stakeholders and communications, and define the project governance structure.

A suggested template for a project plan is attached below.

Output

The output for this stage should be a well articulated, clear and agreed project plan. Drawing on the initial paper outlined in Section 1.1 (page 10), as a minimum, the plan should:

i. Set out the **rationale for intervention** including an initial assessment of the likelihood of the project having an impact on the issue or the findings of previous policy evaluations relevant to the issues concerned;
ii. Define the **problem** that the policy is to address and the **key questions** that need to be answered;
iii. Set a brief overview of available **evidence**, to include the key trends and work underway in related areas;
iv. Outline a **timetable**, identifying the key dates and **milestones** by which various stages of the process must be completed (i.e. a legislative slot) and dependencies in the timetable (i.e. development and analysis of options cannot be undertaken until the research stage is complete);
v. Identify the **key tasks** involved in taking forward the project and allocate responsibility for completing the key tasks;
vi. Identify the **key outputs** at each stage (i.e. consultation document);
vii. Identify the **skills** needed to take forward the work;
viii. Identify **who needs to be involved**, including who is leading, who else needs to be brought in, who needs to be consulted;
ix. Identify the **risks** which may delay or threaten progress and how these will be managed;
x. Outline initial thoughts on **implementation** (these can be further developed as you work through the process);
xi. Identify initial assumptions on project **costs**;
xii. Identify the **sponsor Minister or senior official** and **management structure** (i.e. steering group or advisory group); and
xiii. Outline a **communication and engagement plan**. This should clearly set out which stakeholders need to be engaged, when and how.

Note

The project plan can only be an effective planning and management tool if it is effectively communicated, and fully understood and agreed within the team.

It is also important to understand that the project plan should not be a static document to be placed on a shelf and ignored once the project is up and running. It should be a live document that is regularly revisited and revised. The initial plan outlined above should be developed and added to as you work through the process and clarify the issues.

APPENDIX ONE

Guide to the Statutory Duties at Section 4 paragraph 2(c)

The Equality Commission for Northern Ireland has set out seven guiding principles for consultation. These require that:

- consultation with groups and individuals should begin as early as possible;

- consideration must be given to which method of consultation is most appropriate in the circumstances. Consideration should be given as to whether face-to-face meetings, small-group meetings, focus groups, discussion papers with the opportunity to comment in writing, questionnaires, or internet discussions are best. Engagement with affected groups or umbrella groups to identify how best to consult or engage with stakeholders is recommended;

- the accessibility of the language and the format of information must be considered to ensure that there are no barriers to the consultation process. Information should be available on request in accessible formats for example Braille, disk, and audiocassette and in minority languages to meet the needs of those who are not fluent in English. Public authorities must ensure that systems are in place to ensure that information is available in such accessible formats in a timely fashion. In addition, specific consideration should be given to how to best communicate information to young people and those with learning disabilities;

- specific training should be considered to ensure that those facilitating consultations have the necessary skills to communicate effectively with consultees;

- adequate time should be allowed for groups to consult amongst themselves as part of the process of forming a view. The Commission recommends a period of at least two months for consultation exercises;

- appropriate measures should be taken to ensure full participation in any meetings that are held. Different groups have different needs and may have different customs. Public authorities will need to consider the time of day, the appropriateness of the venue, in particular whether it can be accessed by those with disabilities, how the meeting is to be run, the use of appropriate language, whether a signer is necessary, and the provision of childcare. Public authorities should recognise and in good faith meet access related costs; and

- Information should be made available to ensure meaningful consultation. This should include relevant quantitative and qualitative data and other documentation such as consultants' reports.

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Effective Policy Making

Workbook Two:

Developing and Analysing the Evidence Base

Policy Innovation Unit

INTRODUCTION

This workbook is the second in a series of five which seeks to provide a practical overview of the key steps in the policy development process as outlined below:

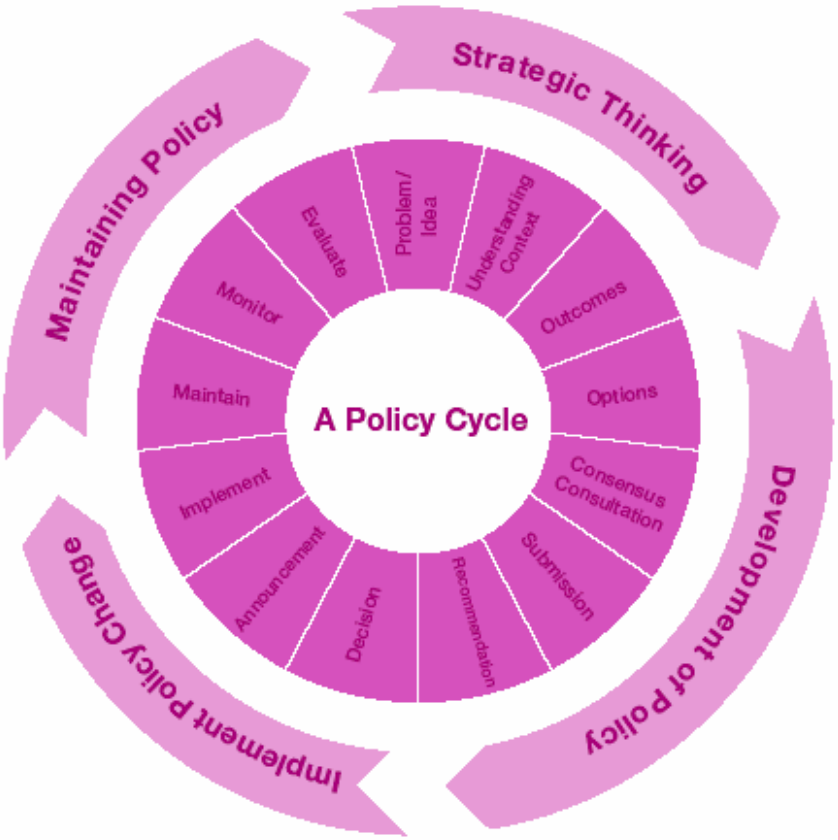
Workbook:	Key Areas Addressed:
1. Justification and Set-Up	Establishing the Need for Policy Intervention Planning Your Approach and Engaging Stakeholders
2. Developing and Analysing the Evidence Base	Gathering the Evidence Analysing the Evidence Presenting the Analytical Report Agreeing the Aims and Objectives
3. Identifying and appraising Policy Options	Identifying Policy Options Costs, Benefits and Risks Appraising the Options
4. A Practical Guide to Impact Assessments	Defining the Aims Screening the Policy Assessing the Impacts Consultation Prioritising the Impacts Agreeing Recommendations and Implementation Decision and Publication of Report on Results of Impact Assessments Monitoring and Evaluation
5. From Consultation to Announcement	Formal Consultation Exercise The Submission

Announcing the Decision

Each workbook seeks to provide practical guidance and draws on existing guidance material and best practice, in particular *A Practical Guide to Policy Making in Northern Ireland*. The workbooks are intended as an introduction and a reference point for more detailed guidance. They are structured around the key stages of the policy process to enable policy makers to dip into the guidance as appropriate.

In using the workbooks it is important to acknowledge that the policy process is cyclical and continuous as demonstrated in Figure 1 below. Policy makers rarely if ever start with a clean sheet and as we work though the process it is often necessary to consider the other stages. Therefore, it is advisable that before using the workbooks you familiarise yourself with the contents and the key messages of the Practical Guide.

Figure 1: The Policy Cycle



What is Policy Making?

Policy making is the process by which the administration translates its vision into actions to achieve desired outcomes. Good policy making is therefore essential if government is to achieve its aims and deliver real change and benefits.

There is no single uniform approach to policy making which can be applied to all areas and all departments. The range of factors and the environment within which policy makers operate can vary considerably. The policy maker may be addressing a regional, local or even international issue. They may need to consider any number of social, economic or environmental factors. There may also be considerable variation in the resource consequences of the policy and the number of groups or individuals which the policy may impact upon. However, there are a number of broad steps or stages which can be applied to most policy areas and these are outlined in this series of workbooks. The key is to tailor the policy process to needs.

2. DEVELOPING AND ANALYSING THE EVIDENCE BASE

CONTENTS

2.1 GATHERING THE EVIDENCE

2.2 ANALYSING THE EVIDENCE

2.3 PRESENTING THE ANALYTICAL REPORT

2.4 AGREEING THE AIMS AND OBJECTIVES

2.1 Gathering the Evidence

If policy outcomes and public services are to be improved, it is crucial that policy decisions should be based on sound evidence. Evidence is needed, not only to demonstrate the need for intervention, but also to inform the development of options and the identification of a preferred solution.

The Role of Departmental Specialists

To be of value, evidence must be seen to be credible, reliable and objective. In identifying and considering evidence, policy makers should consult with colleagues in analytical services or relevant professional groups within the Northern Ireland Civil Service, for example, statisticians, economists, medical officers, inspectors, scientists, and social researchers. These professionals should know what relevant published statistics are available and be in touch with the latest research evidence and best practice internationally in the relevant policy areas. They can also advise on commissioning new research and generally point policy makers in the right direction. To get effective guidance, policy makers should involve professional colleagues at the start of the policy development process.

Sources of Evidence

Good quality policy making depends on high quality information, derived from a variety of sources: expert knowledge; existing local, national and international research; existing statistics; evaluation of previous policies; and secondary sources, including the internet. On occasion it may be necessary to commission new research, though not before we have identified existing data.

Policy makers also need to take account of the fact that some of the most relevant and valuable information available will come from the front line of service delivery, for example, from customer surveys or from delivery partners highlighting what works. Therefore, stakeholder consultation and engagement of delivery bodies is an essential part of the evidence gathering process.

The key issues the policy maker needs to consider in gathering evidence are:

(i) What relevant information/research is available on this issue?
(ii) How has the issue been addressed elsewhere, what works, and what does not?
(iii) What are the key trends and potential future developments which could impact on this issue?
(iv) What are the delivery capabilities?

The latter point is very important. Policies which cannot be implemented are of no benefit. It is, therefore, very important at the outset to gain a clear understanding of the delivery capability. In particular it is important to consider the resources and competencies of delivery bodies, the constraints to delivery and the culture and capacity for change within the organisation. Once again, this points to the need to engage with delivery bodies at the earliest stage in the policy process.

2.2 Analysing the Evidence

Evidence gathering for its own sake is of little value. Simple statements of data or expert opinion offer little insight if the policy team fails to consider them in the context of the policy. The role of analysis is to add value. Analysis is not about gathering and collating relevant evidence, rather it asks the question 'what does this mean – what is it telling us?'

There are numerous tools or approaches which can be utilized in analysing evidence, and once again professional advisers or relevant experts can provide direction and assistance. In analysing the evidence there are three key areas to consider, these are:

(i) the current position and baseline;
(ii) the relative position; and
(iii) possible futures.

Current Position

Here the analysis should focus on explaining where we are and how we have come to this position. This stage of the analysis should also consider delivery capabilities with particular reference to available resources and competencies and explain why there is a need for change, for example, developments in technology may allow more innovative and effective solutions.

Information on the current position can also be used to establish a baseline against which we can eventually monitor and evaluate the impact of the policy. However, if the baseline is to be relevant it needs to be up-to-date, as far as possible, at the point we begin implementation. Therefore, it is important that the baseline information is revisited and updated periodically.

Relative Position

It is very important to place the issue in a wider context, looking at how it has developed and been addressed elsewhere. By using international comparisons or benchmarking we gain a better understanding of our own performance, for example, how do our rates of disease, educational attainment or economic activity compare with others? We can also learn lessons from other countries or policy areas; how have they addressed the issue, consider what has worked and why, and thereby set expectations for what can be achieved.

Possible Futures

Finally, we need to consider how the issue is likely to develop in the future. This is absolutely crucial if the policy is to continue to be relevant in the long-term. There are many techniques such as forecasting and scenario development which can be used to build an objective view of possible futures. Essentially these processes look at the current position and trends and how these may develop. The analysis here should look at a range of possible outcomes and seek to identify potential risks, shocks or uncertainties that may impact on the trends and anticipated future outcomes. This will ensure that the team has the best possible chance of developing a policy or strategy that will not only address current issues, but also remain effective into the future.

2.3 Presenting the Analytical Report

The output from this phase should be a document that sets out the findings of the team's research and analysis. The paper should clearly set out what evidence has been considered and what conclusions have been drawn from the analysis. Publishing an evidence base or data set in this way, helps to create a common understanding of the issue and a shared platform among stakeholders for moving forward. The interim analytical report will provide a basis upon which to develop and subsequently evaluate options, it can also help to consolidate thinking on how you may wish to structure any subsequent report or consultation document. Therefore, it is beneficial to invest sufficient time in this stage of the process and to factor that time into the overall project plan.

Output

The interim analytical report should also draw on the output from Workbook One and is a useful way of setting out the results of the analysis and the emerging conclusions within an initial story line. For example:

(i) what is the situation?
(ii) what are the problems?
(iii) what is the relative significance or impact of the different problems?
(iv) what is causing the problems?
(v) how do we currently tackle the problems?
(vi) is this working?
(vii) what can we learn from elsewhere?
(viii) how is the situation likely to change in the future?

2.4 Agreeing the Aims and Objectives

Objectives must be stated so that it is clear what the proposals are intended to achieve. The objectives should be consistent with government policy, departmental or agency objectives, departmental Public Service Agreements (PSAs), and wider macro-economic policy.

In defining the objectives it is also useful to outline associated inputs and indicators to measure progress. Objectives and their associated indicators can be specified on a number of levels as outlined below.

Primary Aim(s):
These are the overall aims of the provision and are usually expressed in quite broad terms. Their purpose is to define the general direction of the policy area and to answer in direct and simple terms the question: *What is it for?* This is essentially the rationale for the policy (see Workbook One) and should include a clear expression of need.

Intermediate Objectives:
These are derived from the Primary Aim(s) and refer to the specific activities of the policy implementation and often have **intermediated** or **activity** indicators attached, such as '*to have sensible drinking guidelines widely accepted*'.

Outcomes:
These refer to the longer-term **impacts** and are usually harder to measure. These are the eventual benefits to society that proposals are intended to achieve. They are also extremely important and attempts should always be made to measure them.
Example: improvements in health or education.

Outputs:

Sometimes outcomes cannot be directly measured, in which case it will often be appropriate to specify outputs, as intermediate steps along the way. Outputs are the results of activities that can be clearly stated or measured and which relate in some way to the outcomes desired.
Example: number of patients treated, number of pupils achieving exam results.

Targets:

For each objective moreover, it should be possible to identify a number of targets. Targets can be used to help measure progress in terms of producing outputs, delivering outcomes, and meeting objectives.
Example: the number of extra treatments or pupil places provided by a certain date.

Objectives should initially be stated broadly enough so that a wide range of options to meet them can be identified. However, as you work through the policy process they must be developed in more specific detail, including targets that are "**SMART**":

- **S**pecific
- **M**easurable
- **A**chievable
- **R**elevant
- **T**ime-dependent

It is particularly important that objectives are measurable, otherwise it will not be possible to gauge whether or how well they have been achieved. Objectives should not normally be expressed in terms of inputs; however, targets for the process of project implementation should be stated, including for example, milestones for achievement of various stages.

Where there are numerous objectives, or there is a potential conflict between objectives, it is helpful to indicate their relative priority, both to inform option assessment and to assist in post project evaluation.

Constraints

Important constraints upon the proposals should be explained. These may be technical, legal, financial or political in nature, or they may have to do with timing or location.

Sometimes an existing policy commitment may be regarded reasonably as a constraint, but this should not always be taken for granted. Policies may deserve to be reviewed, particularly when a significant time has elapsed since they were decided. This can apply equally to other apparent constraints – they may be reasonable in some cases but should not always be taken at face value.

Objective setting should normally precede option appraisal. However, if circumstances change, or as appraisal reveals more about the options, it may be appropriate to revisit initial objectives and revise them during the course of an appraisal.

Output

The output for this stage should be an agreement as to the aims and objectives. The following questions may help to set suitable objectives and targets:

- What are we trying to achieve? What are our objectives? What would constitute a successful outcome or set of outcomes?
- Have similar objectives been set in other contexts that could be adapted?
- Are our objectives consistent with strategic aims and objectives as set out, for example, in the department's PSAs?
- Are our objectives consistent with government's commitment to sustainable development at the local, regional, national and international level?
- Are our objectives defined to reflect outcomes (e.g. improved health, crime reduction or enhanced sustainable economic growth) rather than the outputs (e.g. operations, prosecutions or job placements), which will be the focus of particular projects?
- How might our objectives and outcomes be measured?
- Are our objectives defined in such a way that progress towards meeting them can be monitored?
- What factors are critical to success?
- What SMART targets can we then set? What targets do we need to meet?

Effective Policy Making

Workbook Three:

Identifying the Way Forward

Policy Innovation Unit

INTRODUCTION

This workbook is the third in a series of five which seeks to provide a practical overview of the key steps in the policy development process as outlined below:

Workbook:	Key Areas Addressed:
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Announcing the Decision

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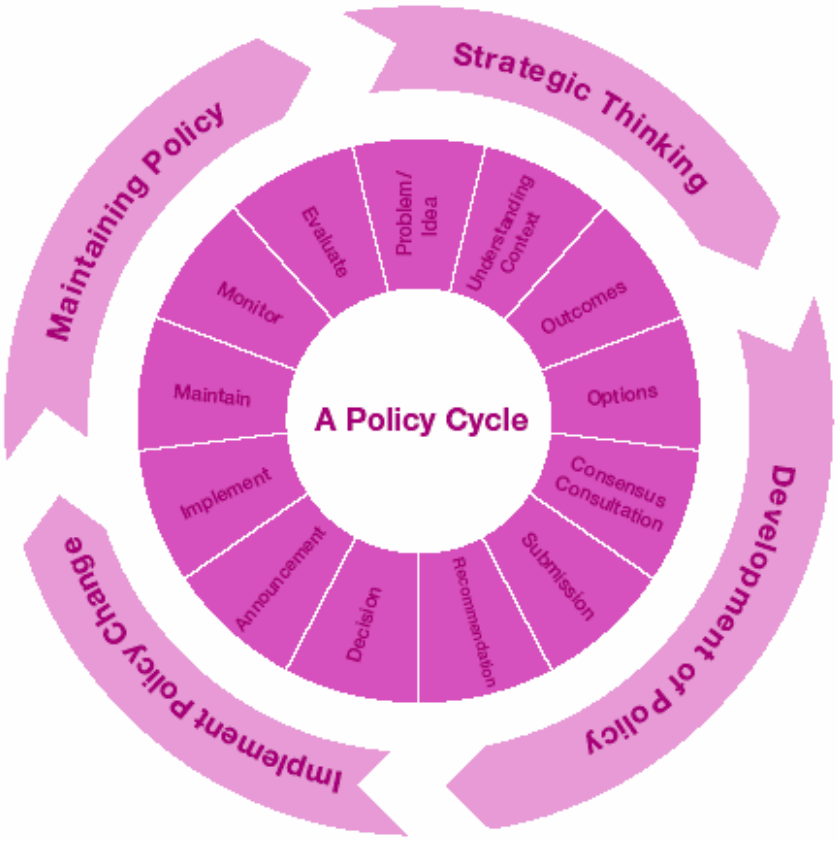
In using the workbooks it is important to acknowledge that the policy process is cyclical and continuous as demonstrated in Figure 1 below. Policy makers rarely if ever start with a clean sheet and as we work though the process it is often necessary to consider the other stages. Therefore, it is advisable that before using the workbooks you familiarise yourself with the contents and the key messages of the Practical Guide.

Figure 1: The Policy Cycle



What is Policy Making?

Policy making is the process by which the administration translates its vision into actions to achieve desired outcomes. Good policy making is therefore essential if government is to achieve its aims and deliver real change and benefits.

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3. IDENTIFYING THE WAY FORWARD

CONTENTS

3.1 OVERVIEW

3.2 IDENTIFYING POLICY OPTIONS

3.3 COSTS, BENEFITS AND RISKS

3.4 APPRAISING THE OPTIONS

3. IDENTIFYING THE WAY FORWARD

3.1 Overview

This workbook aims to work you through the process of developing options, appraising those options and identifying the way forward. This stage of the policy process must take account of the evidence base and the objectives identified for the policy.

Although the appraisal of options is addressed in this workbook, a key part of identifying the preferred way forward is the appraisal of impacts which is considered in Workbook Four. As such, this workbook should be utilized alongside Workbook Four. It should be noted that a full Impact Assessment is not required on each option. However, an initial consideration of the potential impacts, or screening the options in line with the screening tool in Workbook Four, may help to identify potential impacts, the feasibility of the proposals and the non-monetary costs and benefits associated with individual options.

3.2 Identifying Policy Options

Having gathered your evidence and agreed your objectives, the next stage is to identify your policy options. It is essential that policy makers consider a wide range of options, as comparison of alternatives helps to draw out the merits of various approaches.

Engaging stakeholders

As in previous stages, where possible, policy makers should involve the widest range of internal and external interests appropriate in identifying and assessing options. Involving those who will implement or evaluate the policy is key to assessing the practicality of proposals. Involving external stakeholders at this stage does carry the risk of raising expectations, and this needs to be considered in managing this stage of the process.

Basic requirements of the policy

Before generating options, it is useful to consider the policy goal and to think about the policy in terms of:

- things it must do
- things it must not do
- things it could do

This can be used as part of the criteria to initially screen the options to identify those you wish to consider in more detail and those you may wish to discard.

Identifying a wide range of options

It is useful to begin by identifying a ‘long list’ of options or possible solutions. This should include not only the conventional solutions, but also any more innovative suggestions, however outlandish they may at first appear. These can be narrowed down at a later stage.

In order to identify possible options it is useful to consider the following:

- how the issue has been addressed previously;
- how other administrations have addressed this or similar issues;
- identify best practice solutions;
- what are the key political actors and stakeholders proposing;
- identify the full range of policy instruments or projects that may be used to meet the objectives.

At this stage, the options should be described in broad terms. However, each option should clearly outline:

- how it will achieve, or contribute to, the policy goal;
- how it fits with existing or planned policies and any existing requirements and obligations on those who might be affected;
- how it could be delivered; and
- indicative costs.

Where the broad policy direction is already determined (for example, when transposing a European Directive) the policy maker should focus on options for implementing the desired solution most effectively.

Narrowing the range of options

Only those options which meet the basic requirements of the policy and appear to offer a practical solution should be considered in further detail. Take forward only the realistic options. Some options may be in fact deliverable but only on an unacceptable timescale, or at high cost. Ministers will always have a timing preference and a price in mind.

The number of options to be subjected to detailed consideration will vary but should generally be in the range of three to six including consideration of the status quo – commonly referred to as the “do nothing” base case option. The status quo option represents the

genuine minimum input necessary to maintain services at, or as close as possible to, their current level. Even where it is not considered to be a realistic option, it should be included to provide a benchmark.

Output

The output for this stage should be detailed policy options. As a minimum, fully worked policy options will detail:

- The anticipated outcome(s);
- What will be delivered;
- Who will deliver it;
- The key roles and accountability;
- How it will be funded;
- How success will measured; and
- How it fits with other policies and wider strategic priorities.

3.3 Costs, Benefits and Risks

For each option it is necessary to consider the costs, benefits and risks associated with the option. Detailed guidance on identifying and analysing costs, benefits and risks is available through HM Treasury's Green Book (See Chapter 5 and Annex 2). Departmental economists can provide advice and guidance and should, where possible, be engaged as early as possible in the process.

The process of identifying and quantifying the full range of costs and benefits of each option can be broken down into three broad steps:

1. Identify and quantify the monetary costs and benefits of each option;
2. Identify the risks in relation to implementation and costs; and
3. In light of the identified risks, adjust the monetary costs and benefits for '*optimism bias*'.

Step 1: Identify the Costs and Benefits

Policy makers need to consider two broad types of costs and benefits over the lifetime of the policy/project, breaking these down annually[1]:

Monetary Costs and Benefits: These are the hard costs and savings associated with developing and implementing the programme and arising from the policy. This should include the costs and savings to the administration, other sectors and private individuals. It should, where appropriate, also consider

[1] Where appropriate, policy makers may also wish to consider opportunity costs. Economists define the "opportunity cost" of any good or service as the value of other goods or services that we must give up in order to produce it. Departmental economists can provide advice on this area.

the cost of the proposal to the wider economy.

Non-Monetary Costs and Benefits: Not all costs and benefits can be expressed in monetary terms. For example there may be environmental, health or social impacts. The Impact Assessment Tool (Workbook Four) is a useful tool to help identify the full range of non-monetary costs and benefits associated with the policy.

Where possible a monetary value should be attached to these impacts, though this may not always be possible. In the first instance policy makers should consult departmental economists who can provide advice and guidance in this area.

Initially, the policy maker needs to identify all the costs and benefits anticipated over the lifetime of the option. Template 1 below provides a framework to record the monetary costs and benefits; Template 2 provides a framework to record the non-monetary costs and benefits. There are a number of approaches to attributing a value to non-monetary costs and benefits; for this reason, Template 2 provides a column to attach a value to non-monetary costs and benefits. Departmental economists can provide assistance in this regard and guidance is available in Annex 2 of HM Treasury's Green Book. It is recognised that often it will not be possible to identify a monetary value; however, it is still important to record the cost and/or benefit to ensure it is fully considered. In such cases impacts should be described qualitatively.

Template 1: Overview of Monetary Costs and Benefits by Year

	Option Number:												
	Option Title:												
	Year	Year 0	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10	TOTAL
	Capital Costs												
A	**Total Capital Costs**												
	Revenue Costs												
B	**Total Revenue Costs**												
C	**Total Costs (A+B)**												
	Benefits												
D	**Total Benefits**												
	Total Cost/Benefit (C-D)												

Template 2: Overview of Non-Monetary Costs and Benefits by Year

	Option Number:							
	Option Title:							
	Year	**Year 0 - 2**		**Year 3 - 6**		**Year 7-10**		**TOTAL**
		Overview of Cost/Benefit	Value (£)	Overview of Cost/Benefit	Value (£)	Overview of Cost/Benefit	Value (£)	
	Non- Monetary Costs							
A	**Total Value of Non-Monetary Costs (where this can be determined**							
	Non-Monetary Benefits							
B	**Total Vale of Non-Monetary Benefits (where this can be determined)**							
	Total Cost / Benefit (A-B)							

Step 2: Identify the Risks and Uncertainty

All policy work involves some degree of risk. Risks are things that may happen at some point in the future and have the potential to impact on the policy and the realisation of objectives. Risks can occur or emerge in the external or internal environment; they may be the result of the impact of other policies and political developments; or they may be associated with finance, resourcing and funding, the project timescales or more general issues with regard to the operational delivery of the policy.

It is essential that risks are identified and actively managed in order to reduce their likelihood of happening or their impact on the policy or programme. It is difficult for an individual policy maker to identify every possible risk; it is therefore good practice to engage relevant stakeholders in this exercise. A vital first step in the analysis is to identify and analyse the important risks, and to show how they compare under each option.

Questions which need to be considered at this stage include:

- What risks are associated with the option?
- Which sector(s) does the risk impact on?
- Which of the three pillars of sustainable development (social, environmental or economic) does the risk impact upon?
- Is the risk time-bound?
- What are the consequences or impact of the risk? Are these significant?
- What is the likelihood of the risk occurring?
- What is the likelihood of the risk resulting in the above consequence(s)?
- Can the option be amended to minimise the likelihood of the risk occurring?

- Can the option be amended to minimise any negative consequences of the risk?

In order to assist in evaluating the level of risk associated with each option, the template below provides a framework for presenting the outcome of the risk assessment in a graphical format. Assign each risk a number and record it in the relevant box. In addition, once a final option/solution has been agreed, the template can also be used to prioritise the risks.

PROBABILITY			
Low			
Medium			
High			
	Low	Medium	High

IMPACT

Assessing Uncertainty

However well risks are identified and analysed, the future is inherently uncertain. So it is also essential to consider how future uncertainties can affect the choice between options.

In assessing uncertainty, the policy maker is considering how vulnerable the option is to unavoidable uncertainties in the future and how changes in a number of variables may impact upon the potential value of the proposal. Examples of variables that are likely to be both inherently uncertain and fundamental to assumptions regarding the feasibility and costs and benefits of options are the growth of real wages, forecast revenues, demand, prices and even environmental change.

Techniques which can be applied include sensitivity analysis and scenario planning. Both the HM Treasury's Green Book and the Northern Ireland Practical Guide to the Green Book provide more detailed guidance on this subject. Departmental economists can also provide advice in this regard.

Mitigating Risk and Uncertainty

Following the identification and analysis of risks and uncertainty, appraisers need to look next at strategies to prevent and mitigate risks and uncertainties. The following may be adopted:

- Consulting early;
- Avoiding irreversible decisions;
- Carrying out pilot studies;
- Building in flexibility from the start;
- Taking precautionary action;
- Transferring risk through contractual arrangements (insurance being an example);
- Developing less risky options, such as making less use of leading edge technology;
- Reinstating, or developing different options; or
- Abandoning the project because it is too risky.

Step 3: Adjust the Costs and Benefits for 'Optimism Bias'

There is a demonstrated tendency for project/policy appraisers to be overly optimistic in their assumptions and to overstate benefits, and understate timings and costs, both capital and operational. If unaddressed, this can significantly undermine the potential success of the policy.

To redress the tendency to be overly optimistic, appraisers should make explicit adjustments for this bias. These will take the form of increasing estimates of the initial costs and decreasing, and delaying the receipt of, estimated benefits. The Northern Ireland Practical Guide to the Green Book provides detailed guidance on how to deal with optimism bias and once again, departmental economists can provide assistance. Spreadsheets to assist in the calculation of optimism bias are also available on the Department of Finance and Personnel (DFP) website at http://eag.dfpni.gov.uk/optimism-bias-calculators.htm.

Adjusting for optimism bias must also take account of the assessment of risk and uncertainty outlined below. Where there is uncertainty over the estimates of the quantitative or monetary value of the proposed option, departments should make this clear and spell out the assumptions used to arrive at the estimates. Departments should also consider presenting a range of values for their estimates, stating whether they represent extreme values or the most likely outcome.

Calculating Net Present Value

The various policy options will generally have an impact over a period of years into the future. This raises the question of how future cost and benefits should be valued in today's terms. Normally people prefer to receive cash sooner rather than later, and pay bills later rather than sooner. In the public sector, likewise, we give more weight to earlier than to later costs and benefits. This is done by applying a discount rate to future costs and benefits.

Any appraisal of the options should generally include, for each option, a calculation of its Net Present Value (NPV). This is the name given to the sum of the discounted benefits of an option less the sum of its discounted costs, all discounted to the same base date.

Guidance on calculating NPV is available through the Northern Ireland Practical Guide to the Green Book and departmental economists can also provide assistance. In addition a spreadsheet to assist in calculating NPV is available on the DFP website at http://eag.dfpni.gov.uk/npc-calculator.htm.

The NPV is the key summary indicator of the comparative value of an option. It enables direct comparison of options with very different patterns of costs and benefits over time. For instance, it solves the problem of how to compare a low capital cost / high running cost option with that of a high capital cost / low running cost alternative.

Regulatory Impact Assessment

An assessment of the benefits and costs of a proposal is the central analytical component of a Regulatory Impact Assessment (RIA). Where a RIA is required, it is necessary to break the costs down in terms of policy costs and implementation costs, and by sector, for example public, private, voluntary and consumers, and to consider the distributional impacts of any costs and benefits. This should be based on the final costs adjusted to take account of optimism biases and NPV. Even when a RIA is not required, it is still best practice to consider the distributional impacts of the costs and benefits to ensure that they do not unduly accrue to any one section of society. Template 3 below provides a framework to summarise the total policy and implementation costs by sector.

Template 3: Distribution of Monetary Costs and Benefits by Sector (Regulatory Impact Assessment)

	Option Number:					
	Option Title:					
		Distribution Of Costs				
	Sector	**Government**	**Public Sector**	**Business**	**Consumers**	**Total**
	Policy Costs					
A	**Total Policy Costs**					
	Implementation Costs					
B	**Total Implementation Costs**					
C	**Total Costs (A+B)**					
	Benefits					
D	**Total Benefits**					
	Total Cost + Benefits (C+D)					

Sustainable Development

Consideration of the costs and benefits is a key part of testing the sustainability and long-term impact of a proposal. Template 4 below provides a framework to summarise the monetary costs and benefits under the three pillars of sustainable development, these are:

Environmental: focuses on the wider environment. This would include issues/measures relevant to climate change and global warming, i.e. greenhouse gas emissions. It would also consider air quality, water, deforestation, use of natural resources and the impact of measures or projects on the built environment and the landscape.

Social: focuses on the basic needs of people. It considers and includes issues such as health, housing, education, equality, sanitation and community participation.

Economic: focuses on wealth creation and the economy at a national, regional, sub-regional and local level. Where appropriate it may also include reference to the wider global economy. In relation to costs and benefits it would include among other areas the provision of infrastructure or programmes to assist economic activity and/or the creation of jobs.

Not all costs will fit easily into one of the three pillars and there will be some degree of overlap. However, recording the costs and benefits in this way can be a useful means to highlight where the policy is likely to have significant impacts. This exercise should be based on the final costs adjusted to take account of optimism bias and NPV and should also reflect the outcome of the Impact Assessment Tool where one is undertaken.

Template 4: Monetary Costs and Benefits (Sustainable Development)

	Option Number				
	Option Title:				
		Social	**Environmental**	**Economic**	**Total**
	Capital Costs (£)				
	Year 1				
	Year 2				
	Year 3				
A	**Total Capital Costs:**				
	Revenue Costs (£)				
	Year 1				
	Year 2				
	Year 3				
B	**Total Revenue Costs:**				
C	**Total Costs (A+B)**				
	Benefits (£)				
	Year 1				
	Year 2				
	Year 3				
D	**Total Benefits**				
	Total Costs/Benefits (C-D)				

Templates 5a and 5b below provide a framework for recording the non-monetary costs and benefits under the three pillars of sustainable development. It must be noted that the templates provide a guide and should be amended as appropriate to ensure they are relevant to the policy area.

Template 5a: Non-Monetary Costs (Sustainable Development)

Option Number:							
Option Title:							
Costs							
			Environmental		**Economic**		**Total**
		Value (£)	**Overview**	**Value (£)**	**Overview**	**Value (£)**	**Cost (£)**
Year 0-2							
	Overview						
	Social						
Year 3-6							
Year 7-10							
Total Costs							

Template 5b: Non-Monetary Benefits (Sustainable Development)

Option Number:							
Option Title:							
Benefits							
			Environmental		**Economic**		**Total**
		Value (£)	**Overview**	**Value (£)**	**Overview**	**Value (£)**	**Value (£)**
Year 0-2							
	Overview						
	Social						
Year 3-6							
Year 7-10							
Total Costs							

3.4 Appraising the Options

Having detailed the options, the next stage is to identify the preferred option. Assessing the options involves considering how they are likely to work in practice.

Where an Impact Assessment has been undertaken on the policy, the results should be considered as part of the appraisal process. The appraisal should also consider the costs and benefits of the option, both monetary and non-monetary, and the wider impacts of the policy in order to identify the best way forward.

It is therefore essential that you have sufficient evidence to properly consider the full range of options available. As part of the appraisal you will wish to consider your evidence base; the information on costs, benefits and risks; and the outcome of the impact assessment process. You will also wish to engage key stakeholders, particularly those responsible for delivering the policy.

There are a number of technical approaches to option appraisal. Two common approaches are Cost Benefit Analysis and the Weighted Scoring Method. Detailed guidance is available in the Northern Ireland Practical Guide to the Green Book. Professional colleagues can provide advice on which technique would best suit the needs of your policy and may also provide assistance in undertaking the option appraisal.

It is important to view option appraisal as a flexible tool, tailoring your approach to particular circumstances. The key aim of the appraisal is to identify which option offers an effective outcome with regard to the policy objectives, compared with the best value for money achievable. Take full account of the effect that each option would have for your stakeholders and delivery partners, and what doing nothing would mean.

Output

The output for this stage should be an Option Appraisal Paper. There are a number of basic areas you will wish to consider as part of the option appraisal:

(i) Effectiveness – will it achieve your objectives?
(ii) Efficiency – will it achieve value for money?
(iii) Inclusive – will it meet the diverse needs of stakeholders?
(iv) Acceptability – will it meet with stakeholders' approval?
(v) Policy fit – is it consistent with other major policy themes and legislative requirements?
(vi) Powers – do you need new legislation?
(vii) Implementation – is it practicable and deliverable?
(viii) Timing – can you deliver it soon enough?
(ix) Consequences – are there potential side effects?

Summarise your findings and be certain you can confidently recommend your preferred option as the best overall solution.

Effective Policy Making

Workbook Four:

A Practical Guide to Impact Assessment

Policy Innovation Unit

INTRODUCTION

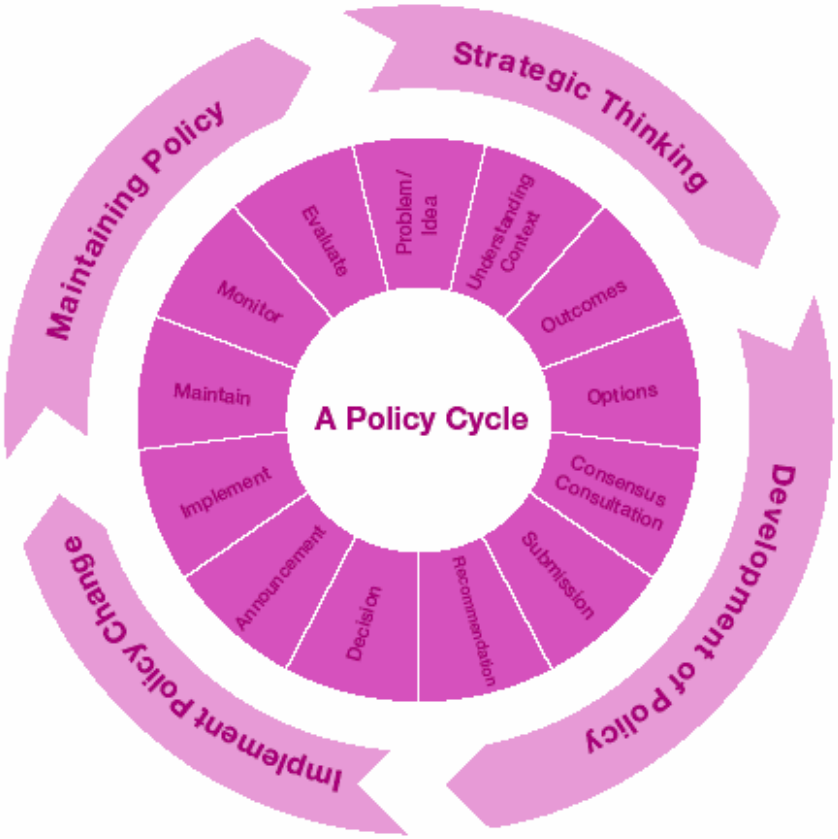
This workbook is the fourth in a series of five which seek to provide a practical overview of the key steps and the key phases in the policy development process as outlined below:

Workbook:		Key Areas Addressed:
1.	**Justification and Set-Up**	Establishing the Need for Policy Intervention Planning Your Approach & Engaging Stakeholders
2.	**Developing & Analysing the Evidence Base**	Gathering and Analysing the Evidence Presenting the Analytical Report Agreeing the Aims & Objectives
3.	**Identifying the Appraising Policy Options**	Identifying Options Appraising the Options and Agreeing the Way Forward
4.	**A Practical Guide to Impact Assessments**	Screening the Policy Considering the Impacts Prioritising the Impacts Monitoring & Evaluation
5.	**From Consultation to Announcement**	Planning the Formal Consultation The Consultation Document Analysing Responses The Submission Announcing the Decision

Each workbook seeks to provide practical guidance and draws on existing guidance material and best practice, in particular the Northern Ireland Practical Guide to Policy Making. The workbooks are intended as an introduction and a reference point for more detailed guidance. The workbooks are structured around the key stages of the policy process to enable policy makers to dip into the guidance as appropriate.

In using the workbooks it is important to acknowledge that the policy process is cyclical and continuous as demonstrated in Fig 1. Policy makers rarely if ever start with a clean sheet and as we work though the process it is often necessary to consider the other stages. Therefore, it is advisable that before using the workbooks you familiarise yourself with the contents and the key messages of the Practical Guide.

Figure 1: The Policy Cycle



What is Policy Making?

Policy making is the process by which the administration translates its vision into actions to achieve desired outcomes. Good policy making is therefore essential if government is to achieve its aims and deliver real change and benefits.

There is no single uniform approach to policy making which can be applied to all areas and all departments. The range of factors and the environment within which policy makers operate can vary considerably. The policy maker may be addressing a regional, local or even international issue. They may need to consider any number of social, economic or environmental factors. There may also be considerable variation in the resource consequences of the policy and the number of groups or individuals which the policy may impact upon. However, as outlined in this series of workbooks, there are a number of broad steps or stages which can be applied to most policy areas. The key is to tailor the policy process to needs.

CONTENTS

4.1 Overview

4.2 Defining the Aims

4.3 Screening the Policy

4.4 Assessing the Impacts

4.5 Consultation

4.6 Prioritising the Impacts

4.7 Decision and Publication of Report on Results of Impact Assessments

4.8 Monitoring & Evaluation

4.1 Overview

Impact assessments are a basic component of best practice in policy making, and form a sound basis on which to review existing policy. They are essential tools to employ when considering the effect of a range of different proposals. To be effective, the process of impact assessment should begin right at the start of your policy project.

There are a wide range of impact assessments which policymakers in Northern Ireland may be required to undertake. This Practical Guide to Impact Assessment Tool is designed to provide a practical framework to enable policymakers to work through the impact assessment process. It highlights the full range of impact assessments which may be required and seeks to provide a structured approach through the various stages of the impact assessment process as outlined below, from screening to final recommendations. Anyone in Government embarking on a policy development exercise should find this Guide useful.

This Guide is not intended to provide a template for the presentation or publication of results, rather it is a framework to assist in working through the impact assessment process. However, a template which may be used to present the results of any impact assessment is attached at Annex 1. Often it will be necessary to present reports on individual impact assessments, such as Equality and Regulatory Impact Assessments. However, in such cases the Guide can still provide a useful mechanism for structuring the thinking and prioritising the findings.

In utilising the Guide there is a need to recognise that impact assessment should not simply be a statement of facts or evidence. It must include an analysis of that evidence if it is to add value. Policymakers must demonstrate not only the evidence upon which they have based assertions but also the rationale or working out behind those assertions.

Sustainable Development

Government is committed to ensuring that sustainable development is central to the agenda right across the Northern Ireland Civil Service.

Sustainable development is becoming a watchword of recent times. The concept has been adopted across the globe and by a wide variety of organizations from national governments and multi-national businesses to local authorities and community groups. Yet there are some indications that the full meaning, indeed the significance of sustainable development is not widely understood.

The goal of sustainable development is to enable all people throughout the world to satisfy their basic needs and enjoy a better quality of life, without compromising the quality of life of future generations. Sustainable Development is therefore not just about protecting the environment and using natural resources in a prudent way, it is about ensuring stable social and economic growth for all.

For this reason Sustainable Development is often defined as being based on three interdependent and mutually supporting pillars:

1. **Social** (People)

2. **Environmental** (Planet)

3. **Economic** (Prosperity)

The three pillars of Sustainable Development are inextricably linked and each is equally important. Therefore it is only possible to achieve significant and sustainable development in one pillar providing this would not create a detrimental effect in another. No one pillar should dominate. It is, therefore,

essential that policy makers consider the impact of policies on each of the three pillars.

To assist in this process, the Impact Assessment tool is structured under the three pillars of sustainable development. Utilising this framework, the Guide is intended to cover the following types of impact assessment:

SOCIAL

- Health
- Crime
- Community Safety & Victims
- Equality
- Human Rights
- Rural
- Social Inclusion

ECONOMIC

- Economic Appraisal
- Economic Impact Assessment
- Regulatory Impact Assessment
- Legal Aid Impact
- State Aid Compliance Assessment

ENVIRONMENTAL

- Environmental Assessments
- Strategic Environmental Assessment

Each of the impact assessments outlined above has been assigned to that pillar which has been deemed most appropriate. However, many of the impact assessments, such as Criminal Activity, Health and Rural, will cut across all

three pillars, having social, economic and environmental impacts as shown in the following framework table.

FRAMEWORK FOR SCREENING:

IMPACT ON	SOCIAL	ECONOMIC	ENVIRONMENTAL
Health	√	√	√
Crime	√	√	√
Community Safety	√		
Equality	√	√	
Homelessness	√		
Human Rights	√	√	√
Lifetime Opportunities	√	√	
Rural	√	√	√
Victims	√		
Economic	√	√	√
Regulation Legal Aid	√	√ √	√
State Aid		√	
Environmental			√
Strategic Environmental			√

In light of the Sustainable Development Strategy for Northern Ireland, there is a duty on public authorities[1] to promote sustainable development in a manner that produces positive outcomes in terms of each of the three pillars. The new duty is given legal force in the Northern Ireland (Miscellaneous Provisions) Act 2006, Section 25. The intention of this provision is to mainstream sustainable development into all the work of public authorities. A public authority is required in the exercise of its functions to act in the manner it

[1] The statutory duty applies to public authorities as defined by Section 25(3) of the Act; that is to Northern Ireland Departments, to District Councils and to any other body that the Office of the First Minister and deputy First Minister may by Order designate.

considers best calculated to contribute to the achievement of sustainable development in Northern Ireland., except to the extent that it considers that such action is not reasonably practicable in all the circumstances of the case.

Sustainable development should become a central consideration in policy-making, serviced delivery, corporate services, procurement and every other aspect of the operations of public authorities.

Consideration of the impacts, therefore, should not be limited only to the particular pillar under which the assessment has been categorised.

Contents and Structure

This Practical Guide to Impact Assessment is divided into four sections as follows:

- **Screening the Policy (Section 4.3)**
- **Assessing the Impacts (Section 4.4)**
- **Prioritising the Impacts (Section 4.6)**
- **Monitoring & Evaluation (Section 4.9)**

When to use it

The Guide is primarily intended to assess the impact of policies. It can also be applied to individual projects where this is appropriate. The Guide also helps with developing the framework for later evaluation of policy and helps identify what data need to be collected in order to monitor a policy's actual impacts and effectiveness.

In undertaking an impact assessment, it is important to take account of the principle of proportionality. The detail and extent of the impact assessment to be carried out should reflect the significance of the policy and of the impact in question. If the impact of the policy is likely to be small, then the assessment can be quite short. Where the impact will be substantial, however, more data and depth of analysis will be required.

In many cases, the screening mechanisms outlined in the Guide will help you to decide that no further investigation of a particular type of impact is necessary for your policy. In others, more detailed work will be required.

A full impact assessment should be carried out on final policy proposals. However, to be effective, the policy process needs to consider potential impacts from the outset. Recognising this, screening the policy at key stages can help to identify potential impacts which the policy maker may wish to take into account.

Recognising the above, it is recommended that the Guide is utilised in the policy process as outlined below

Relevant Workbook	Policy Phase	Impact Assessment Stage to be Applied	Benefit
Workbook One	Strategic thinking, consideration of policy area and aim of the policy	Screening	Screening the policy at this stage can help highlight potential impacts, enabling the development of the policy from an early stage to consider measures to minimise potential impacts or enhance positive outcomes and avoiding the need for radical change at a late stage. The output of this initial screening exercise can also be used to highlight evidence gathering requirements.
Workbook Three	Identifying and appraising options	Screening: Where a number of options are considered it may be impractical to undertake a full impact assessment on each option. However, as a minimum, it is recommended that each option should be screened to highlight potential impacts.	Screening the options will help identify potential impacts which the policy maker will wish to consider during the appraisal of options. Screening the options will also provide information which will be required at the full impact assessment of the preferred option as outlined below.
Workbook Three	Identifying the preferred option	Full impact assessment: This should include screening of the policy, assessment of the impacts, identification, where appropriate, of mitigating measures / policy alternatives, recommendations and monitoring and evaluation.	The full impact assessment must be carried out on the preferred option or policy decision. A key aspect of the full impact assessment is the identification of mitigating measures / policy alternatives in order to minimise an adverse impact or enhance a positive impact. This can be informed by considering the outcome of the screening exercise undertaken on the long list of policy options as outlined above.

4.2 Defining the Aims of the Policy

At the outset of the impact assessment process it is important to determine the aims of the policy. The policy aim defines what the public authority intends to achieve, it therefore should clarify the intended outcomes of the policy. It is for this reason that defining the aims of the policy is the critical first step in the impact assessment process, effectively setting the term of reference.

It is useful at this stage to include not only the general aims of the policy, but also, where available, the more specific associated objectives, particularly where these help to clarify how the policy will operate (for example, in relation to service provision or procurement). It is also useful to consider at this stage how the policy interacts with other policy areas, as discussed in Workbook One.

Workbook Two provides guidance and a framework for identifying the aims and objectives of the policy and should be used to inform this section of the Guide.

4.3 Screening the Policy

Although there are a large number of impact assessments not all will be required to be undertaken on all policies. Screening helps to determine where a full impact assessment may be required and where no further action is necessary. The screening mechanisms which are contained in Annex One of this workbook provide a framework to undertake the screening exercise. Such a framework helps the screening process to clarify the potential impacts and where the evidence gathering process and deeper analysis may need to focus. Each impact assessment is addressed separately and a template is provided to bring together the results of the screening exercise.

In the case of sustainable development, a public authority must have regard to any strategy or guidance relating to sustainable development issued by the DOE. It is the policy of Northern Ireland Ministers that NI Departments will also be required to have due regard to the Sustainable Development Strategy for Northern Ireland, ‘ First Steps’ The first Implementation Plan for the Sustainable Development Strategy for the period to 2008.

Further advice on the statutory duty is available from:

Sustainable Development Unit,
OFMDFM
Block E, Castle Buildings
Belfast BT4 3SR
Tel: 02890 528373
Fax: 02890 522622
Email: john.bradley@ofmdfmni.gov.uk

SCREENING FOR SOCIAL IMPACTS

IMPACT ASSESSMENTS COVERED:

- **Crime Impact Assessment**
- **Community Safety & Victims**
- **Equality**
- **Health**
- **Human Rights**
- **Rural**
- **Social Inclusion**

1. Crime Impact Assessment

Community Safety	Screening Questions	Response to Screening Questions			Full Impact Assessment Required		Justification / Key issues and groups to focus on
		Yes	No		Yes	No	
	Will the policy impact on the costs of or demand for legal goods or services to consumers, or impact on the costs of disposal of legal goods?						
	Will the policy involve the introduction, delivery or amendment of a financial measure, i.e. a tax or concession, grant or subsidy?						
	Will the policy introduce, remove or amend a legal requirement or regulatory power?						
	Will it impact on funding for law or regulatory enforcement activity including demand for legal aid?						
	CONCLUSION						

When Is a Full Crime Impact Assessment Required?

If the answer to any of the above questions is yes, consideration should be given to undertaking a Criminal Activity Impact Assessment.

In undertaking the assessment it is only necessary to address the relevant questions highlighted by the screening tool.

2. Community Safety & Victims

Community Safety	Screening Questions	Response to Screening Questions		Full Impact Assessment Required		Justification / Key issues and groups to focus on
		Yes	No	Yes	No	
	Will the policy / project contribute to community safety or impact on fear of crime?					
	Is it likely to have an impact on any specific type of crime?					
	Will the policy / project have an impact on victims of crime?					
	Is there any evidence to suggest that the policy would have a particular impact on victims of the conflict?					
	CONCLUSION					

When Is a Full Community Safety & Victims Impact Assessment Required?

If the answer to any of the above questions is yes, consideration should be given to undertaking a Community Safety & Victims Impact Assessment.

Where a potentially significant impact is identified, a Community Safety Impact Assessment should be undertaken.

3. Equality (this must be completed in line with the Equality Commission's *Guide to the Statutory Duties*)[2]

	Screening Questions	Response to Screening Questions		Full Impact Assessment Required		Justification / Key issues and groups to focus on
		Yes	No	Yes	No	
Equality	Is there any indication or evidence of higher or lower participation or uptake by different groups?					
	Is there any indication or evidence that different groups have different needs, experiences, issues and priorities in relation to the particular policy?					
	Have previous consultations with relevant groups, organisations or individuals indicated that particular policies create problems that are specific to them?					
	Is there an opportunity to better promote equality of opportunity or good relations by altering the policy or working with others in government or in the larger community?					
	CONCLUSION					

When Is a Full Equality Impact Assessment Required?

If the answer to any of the above is yes, consideration must be given to undertaking a full EQIA. A full EQIA must be undertaken where a significant implication for equality of opportunity is identified.

[2] **NOTES:**
The above questions must be considered in relation to the nine equality groups. These are: Age, Marital Status, Men & Women generally, Persons with a disability and persons without, Persons with dependents and persons without, Political opinion, Racial group, Religious belief, Sexual orientation. A more detailed overview of the nine equality groups is available in the *Guide to the Statutory Duties* which should be consulted before completion of this screening exercise.

4. Health

1. Health Determinants

Is the initiative affecting any of the following determinants of health?

LIFESTYLE	Positive Effect		Negative Effect		No Effect
Diet					
Physical activity					
Safe sex					
Substance use: alcohol, tobacco, illegal substances					
Other					

Explanation: If there is likely to be a positive or negative effect on lifestyle factors, note briefly here what those effects are.

PHYSICAL ENVIRONMENT	Positive Effect		Negative Effect		No Effect
Air					
Built Environment & Land Use					
Noise					
Water					
Other					

Explanation: If there is likely to be a positive or negative effect on the physical environment, note briefly here what those effects are.

SOCIO-ECONOMIC ENVIRONMENT	Positive Effect		Negative Effect		No Effect
Crime					
Education					
Employment					
Family Cohesion					
Housing					
Income					
Recreation					
Social Cohesion					

SOCIO-ECONOMIC ENVIRONMENT	Positive Effect		Negative Effect		No Effect
Transport					
Other					

Explanation: If there is likely to be a positive or negative effect on socio-economic factors, note briefly here what those effects may be.

2. Health Care

Is the initiative affecting access to health services?

HEALTH CARE	Positive Effect		Negative Effect		No Effect
Access to Health Services					

Explanation: If there is likely to be a positive or negative effect on access, note briefly here what those effects are.

3. Population Affected

Considering the health impacts identified above, which of the following sections of the population will be affected (Includes Section 75 groups)

LIFESTYLE	Positive Effect		Negative Effect		No Effect
Whole Population					
Sub-Populations:					
Children (0-18 years)					
Older People					
Marital Status					
Persons with dependants					
Persons without dependants					
Political Opinion					
Religious Belief					
Chronically ill					
Economically Disadvantaged People					
Gender (specify male/female)					
Homeless					
Sexual Orientation					

LIFESTYLE	Positive Effect		Negative Effect		No Effect
People with Disabilities					
Racial and Ethnic Minority Groups					
Rural Population					
Unemployed					
Other					

Explanation: If there is likely to be a positive or negative effect on the whole or a section of the population, note briefly here what those effects are.

Note: The proposal may have a positive impact on one section of the population and a negative effect on another. Specify where this occurs.

4. Recommendation

Considering the health impacts, if any, identified above, are these significant enough to warrant a health impact assessment?

YES	
NO	

This decision must be based on a judgement of the strength of the available evidence and its applicability to local conditions and the strength of feeling of stakeholders and key informants.

If No, what are the reasons for not carrying out a HIA.

Note: Possible reasons might include:

- Health impacts not considered significant enough
- Lack of evidence to show health impacts
- Not enough time to influence decisions on the proposal
- Lack of resources to carry out required level of research

Note:

Further information on HIAs can be obtained from the following web sites:

(i) the dedicated Institute of Public Health HIA site (www.publichealth.ie/hia)

(ii) Investing for health (http://www.investingforhealthni.gov.uk/impact.asp).

Human Rights

Before completing the Human Rights screening exercise, it is necessary for you to have read the OFMDFM guidance on human rights entitled "***Get in on the Act; a practical guide to the Human Rights Act for public authorities in Northern Ireland***".

Go through each of the rights detailed in the table below. For each one **consider whether the policy/proposal engages the right**, i.e. how the policy/proposal you are working on could involve the right. Explain how the right is engaged.

Please note that the rights have been abbreviated so you should see the relevant Article in the Guide referred to above for the full title and explanation of the right.

Human Right	Does the Policy Engage the Right?	
	Yes/No	Explanation
Article 2 Right to life		
Article 3 Prohibition of torture, inhuman and degrading treatment		
Article 4 Prohibition of slavery and forced labour		
Article 5 Right to liberty		

Human Right	Does the Policy Engage the Right?	
	Yes/No	Explanation
Article 6 Right to a fair trial		
Article 7 No punishment without law		
Article 8 Right to respect for private and family life		
Article 9 Freedom of thought conscience and religion		
Article 10 Freedom of expression		
Article 11 Freedom of assembly and association		
Article 12 Right to marry and found a family		

Human Right	Does the Policy Engage the Right?	
	Yes/No	Explanation
Article 14 Prohibition of discrimination		
Protocol 1, Article 1 Right to property		
Protocol 1, Article 2 Right to education		
Protocol 1, Article 3 Right to free elections		

When Is a Human Rights Impact Assessment Required?

If you have answered yes to any of these questions you must complete the Human Rights Impact Assessment.

If you have answered no to **all** of the questions, a Human Rights Impact Assessment is not required. However, in this case you should complete part 8 of the human rights assessment proforma only which must be signed off by a Senior Responsible Officer (Grade 7, equivalent or above). Part 8 can be found on page 59 of this document.

6. Rural

Rural	Screening Questions	Response to Screening Questions			Full Impact Assessment Required		Justification / Key issues and groups to focus on
		Yes	No		Yes	No	
	1. Does the policy apply in rural areas and communities? **If NO:** set out the reasons why **If Yes:**						
	a. Does the policy have the potential to have a negative impact on rural areas and communities?						
	b. Does the policy have the potential to have a positive impact on rural areas and communities?						
	CONCLUSION						

When Is a Rural Impact Assessment Required?

If the answer to question 1 is yes, consideration should be given to undertaking a rural impact assessment. The following guidance applies:
If the answer to a is yes, a rural impact assessment must be undertaken and the checklist completed.

If the answer to b is yes, the policy document should include a reference to how and why the impact will be positive.

7. Social Inclusion

	Screening Questions	Response to Screening Questions			Full Impact Assessment Required		Justification / Key issues and groups to focus on
		Yes	No		Yes	No	
Poverty & Social Exclusion	Will the policy involve the spending of public monies, the allocation of non-financial resources or the delivery of a service?						
	Will the policy impact on socially excluded or vulnerable groups or involve the delivery of a service within or to socially excluded areas?						
	Will the policy address or impact on measures to promote employment or employability among the most disadvantaged?						
	Will the policy address or impact on other areas of inequality and disadvantage such as health, education and housing?						
	CONCLUSION						

When is a Social Inclusion Impact Assessment Required?

If the answer to any of the above is yes, consideration should be given to undertaking a social inclusion impact assessment.

In undertaking the assessment it is only necessary to address the relevant questions highlighted by the screening tool.

SCREENING FOR ECONOMIC IMPACTS

IMPACT ASSESSMENTS COVERED:

- **Economic Appraisal**
- **Economic Impact Assessment**
- **Regulatory Impact Assessment**
- **State Aid Compliance Assessment**

8. Economic Appraisal [3]

ECONOMIC APPRAISAL	Screening Questions	Response to Screening Questions			Full Appraisal Required		Justification / Key issues and groups to focus on
		Yes	No		Yes	No	
	Does the decision/proposal involve the spending or saving of public money?						
	Does the decision or proposal involve changes in the use of public resources?						
	CONCLUSION						

When Is an Economic Appraisal Required?

If the answer to any of the above questions is yes, an economic appraisal may be required. However, the level of appraisal should be proportionate to the costs involved. Departmental economists can provide further advice in this regard.

[3] **NOTES:**
Economic appraisals should, where possible, be undertaken by parties not directly involved in the decision making process. Departmental economists can provide further advice on economic appraisal.

9. Economic Impact Assessment

ECONOMIC APPRAISAL	Screening Questions	Response to Screening Questions			Full Appraisal Required		Justification / Key issues and groups to focus on
		Yes	No		Yes	No	
	Will the policy impact on the provision of goods or services to consumers, or the uptake of such goods and services to consumers?						
	Will the policy impact on the region's infrastructure?						
	Will the policy impact on investment in research and development or promote innovation and creativity?						
	Will the policy impact on or encourage enterprise?						
	Will the policy impact on the skills level within the economy?						
	Will the policy address negative perceptions of Northern Ireland and /or help promote it as a place to live, work and invest?						
	CONCLUSION						

When Is an Economic Impact Assessment Required?

If the answer to any of the above is yes, consideration should be given to undertaking an economic impact assessment. In undertaking the assessment it is only necessary to address the impacts highlighted by the screening tool.

10. Regulatory Impact Assessment

Regulatory	Screening Questions	Response to Screening Questions			Full Impact Assessment Required		Justification / Key issues and groups to focus on
		Yes	No		Yes	No	
	Is the policy or amendment to the policy likely to have a direct or indirect impact on businesses?						
	Is the policy or amendment to the policy likely to have a direct or indirect impact on the voluntary / community sector?[4]						
	CONCLUSION						

When Is a Regulatory Impact Assessment Required?

If the answer to any of the above questions is yes, consideration should be given to undertaking a Regulatory Impact Assessment. However, the level of appraisal should be proportionate to the costs involved.

A Regulatory Impact Assessment is not required for:

i. Proposals which impose **no costs or no savings**, or negligible costs or savings on business, charities, social economy enterprises or the voluntary sector;
ii. Increases in statutory fees by a predetermined formula such as the rate of inflation; or Road closure orders.

[4] **NOTES:**

This Includes charities and the social economy sector.

11. Legal Aid Impact

In considering the development of a policy proposal especially one involving the introduction of new criminal sanctions or civil penalties, the Northern Ireland Courts Service should be consulted at an early stage in the development of the proposal.

It will always be necessary to discuss and agree the consequences of the policy proposal, including the resource implications, of the new proposal for the workload of the courts and legal aid. Central to these considerations will be the completion of a legal aid impact test. This is not a difficult process but it is very important that it is carried out to ensure that there are no subsequent problems with securing policy approval for your proposal. Further guidance on undertaking a legal aid impact test is available later in this workbook. It should be noted that legal aid, subject to means and merits test, is available for many aspects of the law which are subject to trial in a court in Northern Ireland. Many new proposals brought forward by central government departments will directly impact on legal aid expenditure such as changing the criminal or civil law or improving or affecting in any way the rights of individuals without that impact being readily or immediately apparent.

Key questions to consider include:

	Screening Questions	Response to Screening Questions			Full Impact Assessment Required		Justification / Key issues and groups to focus on
		Yes	No		Yes	No	
Legal Aid	Will the new legislation impact on or have implications for the workload of the courts and legal aid?						
	Will the policy proposal involve any entitlement to benefits?						
	Will the new legislation or policy proposal impact on people?						
	CONCLUSION						

State Aid Compliance

State Aid	Screening Questions	Response to Screening Questions			Full Impact Assessment Required		Justification / Key issues and groups to focus on
		Yes	No		Yes	No	
	Will the policy involve undertakings (businesses or any entity involved in economic activity)?[5]						
	CONCLUSION						

When Is an Assessment of State Aid Compliance Required?

If the answer to the above questions is yes, a state aid assessment should be undertaken.

[5] **Notes:**
The entity does not have to be profit-making if the activity carried out is one which has commercial competitors. In some instances, public and voluntary sector organisations, such as universities and charities, could be classified as undertakings, as can the State itself. Private individuals are generally not considered to be undertakings unless e.g. self-employed.

SCREENING FOR ENVIRONMENTAL IMPACTS

IMPACT ASSESSMENTS COVERED:

- **Assessment of Environment Impacts**
- **Strategic Environmental Assessment**

SCREENING FOR ENVIRONMENTAL IMPACTS

- **Sustainable Development Impact Assessment**

12. Assessment of Environmental Impacts

	Screening Questions	Response to Screening Questions			Full Impact Assessment Required		Justification / Key issues and groups to focus on
		Yes	No		Yes	No	
Environmental	Will the project / policy impact on air quality i.e. will it lead to a change in emissions of air pollutants or the numbers of people affected by poor air quality?						
	Will the project / policy impact on climate change i.e. will it lead to changes in emissions of greenhouse gas, consumption of fossil fuels or increase the need to travel within the region?						
	Will it impact on the landscape or the use of land within the region?						
	Will it impact on the use of natural resources within the region?						
	Will it impact on bio-diversity within the region?						
	Will it involve a proposal that has the potential to impact on levels of noise?						
	CONCLUSION						

When is an Environmental Impact Assessment Required?

If the answer to any of the above is yes, an environmental impact assessment should be undertaken.

12. Strategic Environmental Impact Assessment

Strategic Environmental Assessment	Screening Questions	Response to Screening Questions		Full Impact Assessment Required		Justification / Key issues and groups to focus on
		Yes	No	Yes	No	
	1. Is the plan / programme likely to have significant environmental effects? **If yes:**					
	a. Is the plan / programme of the type listed in Article 3(2)[6] which determine the use of small areas at local level, or which are minor modifications to plans and programmes;					
	b. Where the plan / programme is not of the type listed in Article 3(2), does it set the framework for future development consent of projects?					
	2. Is the sole purpose of the plan / programme to serve national defence or civil emergency?					
	3. Is it a financial or budget plan / programme?					
	4. Is it supported by the EU Structural Funds or the European Agricultural Guidance and Guarantee Fund for the programming periods from 2000 to 2006 or 2007?					
	CONCLUSION					

When Is a Strategic Environmental Impact Assessment Required?

If the answer to question 1 and parts a or b is yes, then a full SEA is required. However If the answer to any one of questions 2, 3 or 4 is yes, an SEA is not required

[6] European Directive 2001/42/EC "on the assessment of the effects of certain plans and programmes on the environment", more commonly known as the Strategic Environmental Assessment or SEA Directive.

SCREENING FOR ENVIRONMENTAL IMPACTS

➢ Assessment of Sustainable Development Impact

Sustainable development takes account of the need to advance the economic and social well-being of the people of Northern Ireland at the same time as protecting and enhancing the natural and built environment. A duty to promote sustainable development is a duty to act in a manner that produces positive outcomes in terms of each of these three aims.

A public authority must be able to demonstrate that it has acted according to the duty and exceptionally where it does not consider this to have been reasonably practical, to demonstrate why.

In undertaking a Sustainable Development Impact Assessment , a number of questions should be given consideration by public authorities. These are covered by the above templates included in this workbook covering social, economic and environmental impacts. They provide a means for reviewing those issues that a public authority must consider in reaching a decision concerning the exercise of its functions. Satisfactory completion of the templates will provide documentary evidence that a public authority made a decision concerning the exercise of its function in a manner compliant with the statutory duty. Satisfactory completion demands that a public authority demonstrates a thorough consideration of the issues identified and that all potential positive and negative impacts are identified and assessed[7]. The templates are simply intended to help public authorities consider a range of relevant factors in reaching a decision concerning the exercise of their functions.

[7] A list of all decisions subject to sustainable Development Impact Assessment must be published annually together with an explanatory statement. As a minimum this publication should involve making a list of such decisions taken during the previous financial year available on its website by 1 May of each year.

Outcome of Screening Exercise.

IMPACT ASSESSMENT / APPRAISAL	FULL ASSESSMENT / APPRAISAL REQUIRED		REASON
	Yes	No	
SOCIAL IMPACTS			
Crime			
Community Safety & Victims			
Equality			
Health			
Human Rights			
Rural			
Social Inclusion			
ECONOMIC IMPACTS			
Economic Appraisal			
Economic Assessment			
Regulatory			
State Aid			
ENVIRONMENTAL IMPACTS			
Environmental			
Strategic Environmental			
SUSTAINABLE DEVELOPMENT IMPACT			

At this stage it is useful to consider the possible links and relationships between the assessments and the potential impacts. This can be developed further once the full impact assessment has been undertaken and can provide a basis to integrate the findings of the final impact assessment.

4.4 Assessing The Impacts

This section of the Guide provides a framework, utilising the three pillars of sustainable development, for undertaking the full range of impact assessments identified earlier. You should only complete those sections relating to the potential impacts identified during the screening exercise.

Identifying the Evidence Base

A key part of assessing the impacts is the consideration of high quality evidence derived from a variety of sources. Before beginning the assessment it is therefore essential to identify your evidence requirements, undertake an audit of available evidence and identify where it may be necessary to commission new evidence.

To be of value, evidence must be seen to be credible, reliable and objective. In identifying and considering evidence, therefore, policymakers should consult with colleagues in analytical services or relevant professional groups within the NI Civil Service: for example, statisticians, economists, medical officers, inspectors, scientists, and social researchers. These professionals should know what relevant published statistics are available and be in touch with the latest research evidence and best practice internationally in the relevant policy areas. They can also advise on commissioning new research and generally point policy-makers in the right direction.

Recognising the above, it is important to emphasise that evidence is not just about data or statistics, it is also about experience, judgement and expertise. Some of the most relevant and valuable information available will come from the front line of service delivery, for example, from customer surveys or from delivery partners highlighting what works and what doesn't work. Therefore, stakeholder consultation and engagement of delivery bodies is an essential part of the evidence gathering process.

Recognising this, in broad terms evidence will fall into one of two categories:

- **Quantitative:** quantitative data refers to numbers (quantities). Analysis usually takes the form of identifying patterns or trends.

- **Qualitative:** qualitative data more usually refers to experience or judgements of individuals or groups.

The table below provides a framework for identifying the evidence required to consider the impacts, highlighting what evidence is available and where it may be necessary to commission new research. This table should be completed in consultation with colleagues in analytical services and key stakeholders.

Impact Area (i.e. Equality)	Overview of Impact	Evidence Requirements	EVIDENCE			
			Available Evidence		Evidence To Be Commissioned	
			Quantitative	Qualitative	Quantitative	Qualitative

ASSESSING THE SOCIAL IMPACTS

IMPACT ASSESSMENTS COVERED:

- **Crime**
- **Community Safety & Victims**
- **Equality**
- **Health**
- **Human Rights**
- **Rural**
- **Social Inclusion**

Crime Impact Assessment

Will the policy impact on the costs of or demand for legal goods or services to consumers, or impact on the costs of disposal of legal goods?		
Part One: Scoping the impact		
Scoping:	Is the question relevant? Y/N **If yes:**	
	Which of the potential criminal consequences listed below will the proposal impact upon:	**What is the nature of the impact? Positive / Negative / Neutral**
	i. Avoidance; illegal dumping; contracting others to assist in avoidance; pollution through illegal disposal.	
	ii. Smuggling; black market counterfeiting; product substitution; forgery	
	iii. Other (detail)	
	If there is no impact, is there a gap or are there opportunities to develop the policy to promote a positive impact?	
Overview of impact:		

Part Two: Consideration of evidence		
Possible Impacts	**Supporting Evidence**	
	Qualitative	**Quantitative**

Part Three: Suggested Improvements / Consideration of mitigating measures and/or policy alternatives	
If a negative impact has been identified what measures can be taken to remove or reduce the negative impact of the policy?	
If a positive impact has been identified what measures can be taken to enhance the positive impact of the policy?	

Will the policy involve the introduction, delivery or amendment of a financial measure, i.e. a tax or concession, grant or subsidy?		
Part One: Scoping the impact		
Scoping:	Is the question relevant? Y/N **If yes:**	
	Which of the potential criminal consequences listed below will the proposal impact upon:	**What is the nature of the impact? Positive / Negative / Neutral**
	i. Avoidance; deception; fraud.	
	ii. Smuggling; black market counterfeiting.	
	iii. Other (detail)	
	If there is no impact, is there a gap or are there opportunities to develop the policy to promote a positive impact?	
Overview of impact:		

Part Two: Consideration of evidence		
Possible Impacts	**Supporting Evidence**	
	Qualitative	**Quantitative**

Part Three: Suggested Improvements / Consideration of mitigating measures and/or policy alternatives	
If a negative impact has been identified what measures can be taken to remove or reduce the negative impact of the policy?	
If a positive impact has been identified what measures can be taken to enhance the positive impact of the policy?	

Will the policy introduce, remove or amend a legal requirement or regulatory power?		
Part One: Scoping the impact		
Scoping:	Is the question relevant? Y/N **If yes:**	
	Which of the potential criminal consequences listed below will the proposal impact upon:	**What is the nature of the impact? Positive / Negative / Neutral**
	i. Crime displacement; corruption; bribery.	
	ii. Smuggling.	
	iii. Other (detail)	
	If there is no impact, is there a gap or are there opportunities to develop the policy to promote a positive impact?	
Overview of impact:		

Part Two: Consideration of evidence		
	Supporting Evidence	
Possible Impacts	**Qualitative**	**Quantitative**

Part Three: Suggested Improvements / Consideration of mitigating measures and/or policy alternatives	
If a negative impact has been identified what measures can be taken to remove or reduce the negative impact of the policy?	
If a positive impact has been identified what measures can be taken to enhance the positive impact of the policy?	

Will it impact on funding for law or regulatory enforcement activity including demand for legal aid?		
Part One: Scoping the impact		
Scoping:	Is the question relevant? Y/N **If yes:** Which of the potential criminal consequences listed below will the proposal impact upon?	
Potential Impact	**Potential criminal consequences associated with the measure.**	**What is the nature of the impact? Positive / Negative / Neutral**
	i. Crime displacement	
	ii. Capacity to address criminal activity	
	iii. Other (detail)	
	If there is no impact, is there a gap or are there opportunities to develop the policy to promote a positive impact?	
Overview of impact:		

Part Two: Consideration of evidence		
Possible Impacts	**Supporting Evidence**	
	Qualitative	**Quantitative**

Part Three: Suggested Improvements / Consideration of mitigating measures and/or policy alternatives	
If a negative impact has been identified what measures can be taken to remove or reduce the negative impact of the policy?	
If a positive impact has been identified what measures can be taken to enhance the positive impact of the policy?	

Community Safety & Victims Impact Assessment

	Assessment Of Impacts			Consideration Of:
	Positive[8] Negative None	**Qualitative (Detail Evidence)**	**Quantitative (Detail Evidence)**	• **Mitigating Measures; and** • **Alternative Policies[9]**
Is the policy / project likely to have an impact on any specific type of crime, especially vehicle crime or domestic burglary? Will it divert people away from or prevent crime?				
Will the policy / project help victims of crime or reduce fear about being a victim of crime?				
Will the policy / project contribute to community safety?				
Is there any evidence to suggest that the policy would have a particular impact on victims of conflict?				

[8] In considering the potential impacts against each of the questions, it is important to consider that the policy may have both a positive and negative impact. For example in Q1 above, it may have a positive impact on one type of crime and a negative impact on another. Both should be considered and recorded.

[9] In considering the impact the level of significance of the impact should also be noted.

EQUALITY IMPACT ASSESSMENT

Section 75 of the Northern Ireland Act 1998 places the following statutory requirements on each public authority:

1. A public authority shall in carrying out its functions relating to Northern Ireland have due regard to the need to promote equality of opportunity

    1. between persons of different religious belief, political opinion, racial group, age, marital status or sexual orientation;
    2. between men and women generally;
    3. between persons with a disability and persons without; and
    4. between persons with dependants and persons without.

2. Without prejudice to its obligations under subsection (1), a public authority shall in carrying out its functions relating to Northern Ireland have regard to the desirability of promoting good relations between persons of different religious belief, political opinion or racial group.

In the context of the Section 75 duties, an Equality Impact Assessment (EQIA) is a thorough and systematic analysis of a policy, whether that policy is written or unwritten, formal or informal, and irrespective of the scope of that policy or the size of the public authority. The assessment must make reference to the nine equality categories as defined in Section 75 of the Act: religious belief, political opinion, racial group, age, marital status, sexual orientation, gender, disability and dependency (see Annex 3 for examples of each).

While the precise detail of each EQIA will be determined by these factors, the assessment itself must always be conducted in accordance with the procedure outlined in Annex 1 of the Guide to the Statutory Duties (Procedure for Conduct

of Equality Impact Assessments). This outlines the seven separate elements of an EQIA as follows:

1. Defining the Aims of the Policy.
2. Consideration of Available Data and Research.
3. Assessment of Impacts.
4. Consideration of: measures which might mitigate any adverse impact; and • alternative policies which might better achieve the promotion of equality of opportunity.
5. Consultation.
6. Decision by Public Authority and Publication of Report on Results of EQIA.
7. Monitoring for Adverse Impact in the Future and Publication of the Results of Such Monitoring.

The following section is intended to provide a framework to address parts 2, 3 and 4 of the seven steps outlined above. (defining the aims of the policy is addressed at section 4.2 of this workbook).

Consultation with regard to impact assessment is addressed at section 4.4 and further guidance on consultation is also available in Workbooks One and Five. The decision by the public authority is briefly considered at section 4.7 of this workbook, and guidance on the final decision making process and announcing a final policy decision is also available in Workbook Five. Step 7 on monitoring is addressed at section 4.8 of this document.

It should be noted that this workbook is intended to provide a framework to assist in working through the impact assessment process. It will be necessary to publish the findings of any EQIA undertaken. A template for the publication of a draft EQIA is attached at Annex 2.

Will the policy impact on persons of different religious belief?		
Part One: Scoping the impact		
Scoping:	Is the question relevant? Y/N What is the likely impact of the policy? Positive / Negative / Neutral If there is no impact, is there a gap or are there opportunities to develop the policy to promote a positive impact?	
Overview of impact:		
Part Two: Consideration of evidence		
Additional guidance:	**Supporting Evidence**	
	Qualitative	**Quantitative**
Will it promote equality of opportunity between persons of different religious belief? Will it promote good relations between persons of different religious belief?		
Part Three: Suggested Improvements / Consideration of mitigating measures and/or policy alternatives[10]		
If a negative impact has been identified what measures can be taken to remove or reduce the negative impact of the policy?		
If a positive impact has been identified what measures can be taken to enhance the positive impact of the policy?		

[10] If a public authority's assessment of the impact of a policy shows a possible "adverse impact" on individuals from any equality category, it must consider how this impact might be reduced, including changing to an alternative policy to better promote equality of opportunity i.e. considering alternative policy options considered in the development of the policy (see Workbook Three).

Will the policy impact on persons of different political opinion?		
Part One: Scoping the impact		
Scoping:	Is the question relevant? Y/N What is the likely impact of the policy? Positive / Negative / Neutral If there is no impact, is there a gap or are there opportunities to develop the policy to promote a positive impact?	
Overview of impact:		
Part Two: Consideration of evidence		
Additional guidance:	**Supporting Evidence**	
	Qualitative	**Quantitative**
Will it promote equality of opportunity between persons of different political opinion? Will it promote good relations between persons of different political opinion?		
Part Three: Suggested Improvements / Consideration of mitigating measures and/or policy alternatives		
If a negative impact has been identified what measures can be taken to remove or reduce the negative impact of the policy?		
If a positive impact has been identified what measures can be taken to enhance the positive impact of the policy?		

Will the policy impact on persons of different racial group?		
Part One: Scoping the impact		
Scoping:	Is the question relevant? Y/N What is the likely impact of the policy? Positive / Negative / Neutral If there is no impact, is there a gap or are there opportunities to develop the policy to promote a positive impact?	
Overview of impact:		
Part Two: Consideration of evidence		
Additional guidance:	**Supporting Evidence**	
	Qualitative	**Quantitative**
Will it promote equality of opportunity between persons of different racial group? Will it promote good relations between persons of different racial group?		
Part Three: Suggested Improvements / Consideration of mitigating measures and/or policy alternatives		
If a negative impact has been identified what measures can be taken to remove or reduce the negative impact of the policy?		
If a positive impact has been identified what measures can be taken to enhance the positive impact of the policy?		

Will the policy impact on persons of different age?		
Part One: Scoping the impact		
Scoping:	Is the question relevant? Y/N What is the likely impact of the policy? Positive / Negative / Neutral If there is no impact, is there a gap or are there opportunities to develop the policy to promote a positive impact?	
Overview of impact:		
Part Two: Consideration of evidence		
Additional guidance:	**Supporting Evidence**	
	Qualitative	**Quantitative**
Will it promote equality of opportunity between persons of different age? Will it promote good relations between persons of different age?		
Part Three: Suggested Improvements / Consideration of mitigating measures and/or policy alternatives		
If a negative impact has been identified what measures can be taken to remove or reduce the negative impact of the policy?		
If a positive impact has been identified what measures can be taken to enhance the positive impact of the policy?		

Will the policy impact on persons of different marital status?		
Part One: Scoping the impact		
Scoping:	Is the question relevant? Y/N What is the likely impact of the policy? Positive / Negative / Neutral If there is no impact, is there a gap or are there opportunities to develop the policy to promote a positive impact?	
Overview of impact:		
Part Two: Consideration of evidence		
Additional guidance:	**Supporting Evidence**	
	Qualitative	**Quantitative**
Will it promote equality of opportunity between persons of different marital status? Will it promote good relations between persons of different marital status?		
Part Three: Suggested Improvements / Consideration of mitigating measures and/or policy alternatives		
If a negative impact has been identified what measures can be taken to remove or reduce the negative impact of the policy?		
If a positive impact has been identified what measures can be taken to enhance the positive impact of the policy?		

Will the policy impact on persons of different sexual orientation?		
Part One: Scoping the impact		
Scoping:	Is the question relevant? Y/N What is the likely impact of the policy? Positive / Negative / Neutral If there is no impact, is there a gap or are there opportunities to develop the policy to promote a positive impact?	
Overview of impact:		
Part Two: Consideration of evidence		
Additional guidance:	**Supporting Evidence**	
	Qualitative	**Quantitative**
Will it promote equality of opportunity between persons of different sexual orientation? Will it promote good relations between persons of different sexual orientation?		
Part Three: Suggested Improvements / Consideration of mitigating measures and/or policy alternatives		
If a negative impact has been identified what measures can be taken to reduce the negative impact of the policy?		
If a positive impact has been identified what measures can be taken to enhance the positive impact of the policy?		

Will the policy impact on persons of different gender?		
Part One: Scoping the impact		
Scoping:	Is the question relevant? Y/N What is the likely impact of the policy? Positive / Negative / Neutral If there is no impact, is there a gap or are there opportunities to develop the policy to promote a positive impact?	
Overview of impact:		
Part Two: Consideration of evidence		
Additional guidance:	**Supporting Evidence**	
	Qualitative	**Quantitative**
Will it promote equality of opportunity between persons of different gender? Will it promote good relations between persons of different gender?		
Part Three: Suggested Improvements / Consideration of mitigating measures and/or policy alternatives		
If a negative impact has been identified what measures can be taken to reduce the negative impact of the policy?		
If a positive impact has been identified what measures can be taken to enhance the positive impact of the policy?		

Will the policy impact on persons with disabilities and persons without?		
Part One: Scoping the impact		
Scoping:	Is the question relevant? Y/N What is the likely impact of the policy? Positive / Negative / Neutral If there is no impact, is there a gap or are there opportunities to develop the policy to promote a positive impact?	
Overview of impact:		
Part Two: Consideration of evidence		
Additional guidance:	**Supporting Evidence**	
	Qualitative	**Quantitative**
Will it promote equality of opportunity between persons with disabilities and persons without? Will it promote good relations between persons with disabilities and persons without?		
Part Three: Suggested Improvements / Consideration of mitigating measures and/or policy alternatives		
If a negative impact has been identified what measures can be taken to reduce the negative impact of the policy?		
If a positive impact has been identified what measures can be taken to enhance the positive impact of the policy?		

Will the policy impact on persons with dependants and persons without?		
Part One: Scoping the impact		
Scoping:	Is the question relevant? Y/N What is the likely impact of the policy? Positive / Negative / Neutral If there is no impact, is there a gap or are there opportunities to develop the policy to promote a positive impact?	
Overview of impact:		
Part Two: Consideration of evidence		
Additional guidance:	**Supporting Evidence**	
	Qualitative	**Quantitative**
Will it promote equality of opportunity between persons with dependants and persons without? Will it promote good relations between persons with dependants and persons without?		
Part Three: Suggested Improvements / Consideration of mitigating measures and/or policy alternatives		
If a negative impact has been identified what measures can be taken to reduce the negative impact of the policy?		
If a positive impact has been identified what measures can be taken to enhance the positive impact of the policy?		

HEALTH IMPACT ASSESSMENT

This tool suggests one approach to collating the evidence and assessing the impacts identified during the screening of the policy and provides a basis for framing recommendations for the HIA.

The purpose of the HIA assessment tool is to enable:

1. documentation of the health impacts identified by stakeholders and steering group
2. Prioritisation of these impacts based on accepted criteria
3. Framing of recommendations for the policy, programme or project based on these prioritized health impacts.

Step 1

Information accessed at the gathering evidence stage should be collated into a format to ensure the material can be easily understood by the group who will be framing recommendations. The following table may be used as a guide to structure the information gathered.

Health determinant category (listed in screening tool)	Nature of Impact		Evidence (detail & include Source)	
	Positive	Negative	Qualitative	Quantitative

Step 2

List in the columns provided both the negative and positive health impacts of the policy, programme or project identified. Then discuss which of these impacts should be prioritized and indicate in the adjoining columns the reason why.

The criteria for prioritisation will depend on the specific circumstances of the HIA but some of the following could be used.

L	=	The predicted health impact is likely or very likely and supported by evidence
I	=	The health impact will have an effect on health inequalities
C	=	The predicted health impact is considered significant or a cause for concern by the community or population or stakeholders affected by the policy, programme or project.
S	=	The health impact is speculative
U	=	The health impact is unlikely in this case
O	=	Other (Where this is indicated, explain in more detail in the text box provided)

Negative Health Impacts	Priority	Positive Health Impacts	Priority

Other – Explanation

Step 3

Based on the criteria above, list again the health impacts prioritised in Step 1. Then after discussion list the recommendations to maximise health gain or minimize health loss.

Prioritised positive health impacts	Recommendations to maximize health gain

Prioritised negative health impacts	Recommendations to minimize health loss

HUMAN RIGHTS IMPACT ASSESSMENT

Part 1: Rights which the policy/proposal interferes with or limits

Will the policy/proposal interfere with or limit any of the rights you identified as being engaged? If so, explain how the right is interfered with or limited.

*You should note that interference could be a negative impact on a right or a failure to take positive action where this is required under the Article in question. For further guidance on which Articles require positive action, please consult the OFMDFM guidance on human rights entitled "**Get in on the Act; a practical guide to the Human Rights Act for public authorities in Northern Ireland**".*

Article	Interfered with or limited? Yes/No	What is the interference/limitation?

Part 2: Those affected by the interference / limitation

Identify who could be affected by the interference or limitation, e.g. sections of society or people with certain beliefs or opinions, and explain how they could be affected.

It will help in identifying interferences or limitations to think about all the people who could be affected and be seen as a victim within the Human Rights Act.

Who could be affected?	How could they be affected?

Part 3: Legal basis for interference / limitation

Is there a law which allows you to interfere with or limit the rights identified in Part 1?

Any interference with or limitation on a Convention right must have a legal basis. You therefore need to establish whether there is a law which allows the proposed interference or limitation.

You may need legal advice to clarify this.

Relevant legislation:

Alternatively, the policy/proposal may involve the creation of a new law which allows for the interference or limitation. If this is the case, please detail and explain in the box below:

Part 4: Purpose of the policy / proposal

Even if the interference or limitation in the policy/proposal is according to the law, there are further conditions which must be met. The purpose of the policy/proposal must pursue a legitimate aim or fall under one of the specific exceptions in the Article in question.

Consider each of the Articles which the policy/proposal will interfere with or limit, and for each one specify the exception or legitimate aim which allows the interference or limitation and explain why.

If you are unsure of the exceptions or legitimate aims which are applicable for the rights interfered with or limited by the policy/proposal you are working on, you should refer to the text of the Convention and the Guide.

Article	Exception / Limitation	Explanation

Part 5: Necessary in a democratic society

Articles 8, 9, 10 and 11 specify that interferences or limitations must be necessary in a democratic society. If the policy/proposal interferes with or limits one of these rights, detail in the table below how the right is necessary in a democratic society i.e. does it fulfil a pressing social need?

You may need to speak to the Senior Responsible Officer for clarification of this

Article affected	Explain why it is necessary in a democratic society

Part 6: Proportionality

Any interference with or limitation on a Convention right must be proportionate, i.e. the policy/proposal must interfere with or limit a right no more than is absolutely necessary to achieve its aims. For each Article which the policy/proposal interferes with or limits, explain how the interference or limitation is proportionate.

For further information on proportionality please consult the Guide.

Article affected	Explain why the interference / limitation is proportionate

Part 7: Article 14 equality issues

Even if it does not interfere with or limit a right or freedom, could the policy/proposal result in people being treated differently in relation to any of the Convention rights? Article 14 does not allow discrimination in the exercise of any of the other Convention rights.

For further information on Article 14, please refer to the relevant pages in the Guide

Convention Article affected	How are people treated differently?	Is this justifiable?

Part 8: Proforma

You should now have a clearer view about the policy/proposal and the possibility of it engaging or interfering with Convention rights and freedoms.

Please ensure the proforma is also signed by your Senior Responsible Officer and if there is any possible interference or limitation refer to your legal advisor for further action and advice.

Please tick the statement that applies, and sign below.

☐ a) The policy/proposal does not engage any Convention rights.

☐ b) The policy/proposal does engage one or more of the Convention rights, but does not interfere with or limit it/them.

☐ c) The policy/proposal interferes with or limits one or more Convention rights and legal advice is being sought.[11]

Countersign, hold copy with policy papers and refer to your legal advisor

Signed by _____ (Official)

Date_____ Grade_____

Signed by_____ (Senior Responsible Officer)

Date_____ Grade_____

[11] If you find that it does interfere with or limit one or more of the Convention rights, and your Senior Responsible Officer agrees, you must seek legal advice, even if it is considered that the interference or limitation is justified. The proforma at Part 9 should be used in this regard.

Part 9: Referral Proforma

Human Rights Act Referral to Legal Services Proforma

FAO: _____ From: _____
_____ _____
_____ _____

Please see the attached Human Rights Act Impact Assessment Proforma for the following proposal/policy.

Title and Objective of Policy/Proposal:

I have identified the following rights as being interfered with/limited by this policy/proposal.

I would be grateful for your advice on this matter. All relevant papers are attached.

Your contact in this Department is:
Name: _____
Address: _____
_____
Tel: _____ Email: _____

Social Inclusion

	Assessment Of Impacts			Consideration Of: • Mitigating Measures; and • Alternative Policies
	Positive Negative None	Qualitative (Detail Evidence)	Quantitative (Detail Evidence)	
Will the policy involve the spending of public monies, the allocation of non-financial resources or the delivery of a service?				
Have decisions in relation to the allocation of resources and effort taken account of the principles of New TSN/Anti-Poverty?				
Is there an opportunity to target resources (whether capital, financial or other) and efforts towards those in greatest objective need in order to positively address poverty and exclusion?				
Will the policy impact on socially excluded or vulnerable groups or involve the delivery of a service within or to socially excluded areas?				
How does the policy address/impact on the particular needs of socially excluded groups?				
How will the policy be delivered to or within socially				

Social Inclusion

	Assessment Of Impacts			Consideration Of: • Mitigating Measures; and • Alternative Policies
	Positive Negative None	Qualitative (Detail Evidence)	Quantitative (Detail Evidence)	
disadvantaged communities to ensure engagement and positive outcomes?				
Will the policy impact on access to information or social networks?				
Will the policy improve or otherwise impact on social, economic and environmental conditions in the most deprived areas?				
Will the policy improve or otherwise impact on access to and use of basic goods services and amenities within deprived communities?				
Does the policy address the need to minimise the isolation of vulnerable people?				

Social Inclusion

	Assessment Of Impacts			Consideration Of: • Mitigating Measures; and • Alternative Policies
	Positive Negative None	**Qualitative (Detail Evidence)**	**Quantitative (Detail Evidence)**	
Will the policy promote user and community involvement in policy development and service delivery?				
Will the policy address or impact on measures to promote employment or employability among the most disadvantaged?				
Will the policy address recognised barriers to employability and/or employment?				
Will the policy impact on the employment needs and aspirations of local communities?				
Will the policy impact on the development and operation of social enterprises?				
Will the policy address or impact on other areas of inequality and disadvantage such as health, education and housing?				

Social Inclusion

	Assessment Of Impacts			Consideration Of: • Mitigating Measures; and • Alternative Policies
	Positive Negative None	Qualitative (Detail Evidence)	Quantitative (Detail Evidence)	
Will the policy help to dispel negative stereotypes?				
How will the policy impact on health inequalities among disadvantaged or vulnerable groups?				
How will the policy impact on inequalities among different groups in educational attainment?				
Will the policy impact on access to and/or take-up of adult education, particularly in the most deprived communities?				
Does the policy provide an opportunity to improve numeracy and literacy levels, particularly in the most deprived communities?				

Social Inclusion

	Assessment Of Impacts			Consideration Of: • Mitigating Measures; and • Alternative Policies
	Positive Negative None	**Qualitative (Detail Evidence)**	**Quantitative (Detail Evidence)**	
Will the policy ensure that the housing stock meets the housing needs of all parts of the community?				
Will the policy impact differentially on people who are of no fixed address, homeless or residing in temporary accommodation?				

Rural

	Assessment Of Impacts			Consideration Of:
	Positive Negative None	**Qualitative (Detail Evidence)**	**Quantitative (Detail Evidence)**	• **Mitigating Measures; and** • **Alternative Policies**
1. Service Provision				
Centralised service outlets: rural people or businesses generally need to travel to an urban centre to use service outlets. How will the proposed rural beneficiaries of a policy have reasonable access to it? Does policy delivery depend upon outlets, which are sparse in many rural areas?				
Few information points: rural areas contain fewer (formal) places to obtain advice and information e.g. libraries, Citizens Advice Bureaux, public Internet points. If the policy's successful delivery requires communication with clients, how will those in rural areas have ready access to information				

Rural

	Assessment Of Impacts			Consideration Of:
	Positive Negative None	**Qualitative (Detail Evidence)**	**Quantitative (Detail Evidence)**	• **Mitigating Measures; and** • **Alternative Policies**
and advice?				
2. Mobility				
Greater travel needs: on average rural people and businesses travel further to reach jobs, facilities, clients and other opportunities. What will the policy effects be upon existing requirements to travel, or the time, convenience and costs entailed for rural businesses or people (especially those on low incomes or without easy access to a car or public transport)?				
Higher service delivery costs: rural distances plus small and dispersed populations can make it more difficult and costly to provide services to rural clients. Does the unit cost of providing the service to rural clients limit the extent or quality of service				

Rural

	Assessment Of Impacts			Consideration Of: • Mitigating Measures; and • Alternative Policies
	Positive Negative None	**Qualitative (Detail Evidence)**	**Quantitative (Detail Evidence)**	
provision? Are there alternative ways to reduce costs and increase provision?				
3. Economic Vibrancy				
Employment Opportunities: Will the policy affect the distribution of intended economic activity in different areas, or the level of access to employment or training opportunities, e.g. the distribution of public sector jobs and the relative accessibility of job skills training.				
Employment Flexibility: many households require part-time employment or employment with flexible hours to allow them to balance work and life needs (for example, in maintaining a small farm or				

Rural

	Assessment Of Impacts			Consideration Of: • Mitigating Measures; and • Alternative Policies
	Positive Negative None	**Qualitative (Detail Evidence)**	**Quantitative (Detail Evidence)**	
balancing care arrangements). Will the policy help or hinder this sort of employment need or reduce the need for flexibility through, for example, encouraging better childcare provision?				
Small firm economy: more businesses are micro-businesses in rural areas (in particular agricultural) and there are few medium-sized or large firms. Will a policy or initiative target and be of benefit to, small (as well as larger) businesses?				
Weak infrastructure: telecommunications infrastructures are generally less developed in rural areas, especially remoter areas. If a fast or high-capacity infrastructure (e.g. "broadband" telecommunications) will play a				

Rural

	Assessment Of Impacts			Consideration Of: • Mitigating Measures; and • Alternative Policies
	Positive Negative None	**Qualitative (Detail Evidence)**	**Quantitative (Detail Evidence)**	
significant part in implementing the policy or initiative, how will it be delivered in rural areas?				
Infrastructure innovations: often, new innovations in infrastructure or service provision are introduced into urban areas first. Can innovations also be tested in rural areas? Might rural areas provide a stronger test in the first instance? Are there plans to roll out new services or infrastructure to rural areas to minimise long periods of inequality?				
High Impact Infrastructure: could a fast or high capacity infrastructure requirement represent a significant impact on environmental or social assets in rural areas (e.g. the impact on				

Rural

	Assessment Of Impacts			Consideration Of: • Mitigating Measures; and • Alternative Policies
	Positive Negative None	**Qualitative (Detail Evidence)**	**Quantitative (Detail Evidence)**	
social cohesion of increased mobility stemming from the upgrading of roads). Could it be modified to reduce these impacts whilst still delivering policy benefits.				
4. Social Well Being				
Countryside amenity and access: the countryside provides important recreational opportunities and a place to get away from it all for people wherever they live. What will be the impact of the policy or initiative for people wishing to reach and use the countryside as a place for recreation and enjoyment?				
Needs not concentrated: rural disadvantage and social exclusion does not exist in the				

Rural

	Assessment Of Impacts			Consideration Of: • Mitigating Measures; and • Alternative Policies
	Positive Negative None	**Qualitative (Detail Evidence)**	**Quantitative (Detail Evidence)**	
types of concentrations found on urban housing estates or in inner city neighbourhoods. It is generally scattered and, in wealthier parts of the countryside, exists side by side with affluence. Will a policy, especially area-based initiatives, have provision for reaching people or households in the open countryside as well as more concentrated locations of disadvantage?				
Different types of need: the mix of deprivation characteristics is somewhat different between rural and urban areas. Poor access to services (including health & social services), low local wages, limited job opportunities and a lack of affordable housing are key rural issues. What needs				

Rural

	Assessment Of Impacts			Consideration Of:
	Positive Negative None	**Qualitative (Detail Evidence)**	**Quantitative (Detail Evidence)**	• **Mitigating Measures; and** • **Alternative Policies**
or deprivation indicators will be used to target an initiative: will they reflect both rural and urban concerns?				
5. Social Capital				
Low institutional capacity: private, public and voluntary sector bodies in rural areas tend to be smaller and often struggle to forge partnerships or submit bids, especially to tight timescales. If a policy or initiative depends upon local institutions, how will it allow for areas with low institutional capacity? How might it avoid a bias in favour of urban representation and influence if partnership formation is a key method for delivery or for subsequent mainstreaming of learning from pilot initiatives?				

Rural

	Assessment Of Impacts			Consideration Of: • Mitigating Measures; and • Alternative Policies
	Positive Negative None	**Qualitative (Detail Evidence)**	**Quantitative (Detail Evidence)**	
Social Capital and community cohesion: provision of services or design of village renewal, new or regeneration of housing estates can impact on sense of community and social capital. Will the policy contribute to strengthening or weakening social capital and hence, the health and sustainability of rural communities?				
6. Natural & Cultural Capital				
Land-based industries: land-based industries (e.g. agriculture, forestry, fishing and extraction / mining) have an important impact on the rural landscape, environment and biodiversity, and remain significant employers in certain rural areas (despite being a fairly small element of the overall				

Rural

	Assessment Of Impacts			Consideration Of: • Mitigating Measures; and • Alternative Policies
	Positive Negative None	**Qualitative (Detail Evidence)**	**Quantitative (Detail Evidence)**	
rural economic base). Will a policy have any particular impacts on –land-based industries and, therefore, on rural economies and environments?				
Landscape quality and character: our rural landscapes are highly valued for their beauty and distinctiveness and contribute significantly to our tourism potential. What will be the likely policy impact upon the quality and distinctive character of natural and built rural landscapes, especially (but not only) on protected landscapes and on biodiversity?				
Local Craft and Food production: A key resource for the growth of many micro-businesses in rural areas is the				

Rural

	Assessment Of Impacts			Consideration Of: • Mitigating Measures; and • Alternative Policies
	Positive Negative None	**Qualitative (Detail Evidence)**	**Quantitative (Detail Evidence)**	
use of traditional crafts, foods and recipes. Will the policy have an impact on the production of any of these, (e.g. regulations affecting food hygiene and production standards) and if so how might traditional approaches be accommodated.				

ASSESSING THE ECONOMIC IMPACTS

IMPACT ASSESSMENTS COVERED:

- **Economic Impact Assessment**
  - **Consumers**
  - **Business / Charities / Voluntary Sector**
  - **Public Expenditure & Public Services**
- **Economic Appraisal**
- **Regulatory Impact Assessment**
- **Legal Aid Impact Test**
- **State Aid**

Economic Impact Assessment

	Assessment Of Impacts			Consideration Of: • Mitigating Measures; and • Alternative Policies
	Positive Negative None	**Qualitative (Detail Evidence)**	**Quantitative (Detail Evidence)**	
1. Consumers				
Will the policy affect the cost, quality or availability of commercially available or publicly provided goods or services.				
Will it result in a change in the choice available to consumers, or the availability of information to enable them to exercise choice?				
Will it introduce a new technology or process that will make existing goods redundant over time?				
2. Infrastructure				
Does the policy enhance the region's infrastructure, including utilities and				

Economic Impact Assessment

	Assessment Of Impacts			Consideration Of: • Mitigating Measures; and • Alternative Policies
	Positive Negative None	**Qualitative (Detail Evidence)**	**Quantitative (Detail Evidence)**	
maximising transport choice and exploiting opportunities offered by information technology?				
Will the policy impact on the quality of the built environment, through for example, reclaiming derelict land and buildings and facilitating access to public spaces?				
3. Enterprise				
Will the policy promote or impact on enterprise?				
4. Innovation				
Will the policy encourage or impact on investment in research and development?				
Will the project impact on				

Economic Impact Assessment

	Assessment Of Impacts			Consideration Of: • Mitigating Measures; and • Alternative Policies
	Positive Negative None	**Qualitative (Detail Evidence)**	**Quantitative (Detail Evidence)**	
improving links between research and development and business needs?				
Will the policy impact on the development of emerging technologies?				
5. Skills				
Will the policy contribute to developing the skills level within the Northern Ireland workforce?				
Will the policy impact on levels of vocational or academic training or the development of skills to promote employability?				
Does the policy take account of the needs of business and long-term employment opportunities?				

Economic Appraisal

The work undertaken in Workbook Three will provide you with much of the information required to undertake an economic appraisal and reflects the key requirements of appraisal.

The Northern Ireland Practical Guide to the Greenbook provides guidance and templates for undertaking an economic appraisal.

However, it is recommended that where required an economic appraisal should be undertaken by an independent party not engaged in the decision making process.

If a full economic appraisal is required you should contact your departmental economists for advice in the first instance.

The key steps in an economic appraisal, reproduced from the Northern Ireland Practical Guide to the Greenbook, are outlined below for information.

Key Steps in Economic Appraisal

STEP	GUIDANCE
1. EXPLAIN THE STRATEGIC CONTEXT	NI Practical Guide section 2.1 Green Book chapters 3 & 4
2. ESTABLISH THE NEED FOR EXPENDITURE	NI Practical Guide section 2.2 Green Book chapters 3 & 4 NI Practical Guide section 4.3
3. 3. DEFINE THE OBJECTIVES AND CONSTRAINTS	NI Practical Guide section 2.3 Green Book chapter 4
4. IDENTIFY & DESCRIBE THE OPTIONS	NI Practical Guide section 2.4 Green Book chapters 5
5. IDENTIFY & QUANTIFY THE MONETARY COSTS AND BENEFITS OF OPTIONS	NI Practical Guide section 2.5 Green Book chapter 5 and Annex 3 HMT supplementary guidance on the taxation of PFI and the public sector comparator NI Practical Guide section 4.4
6. APPRAISE RISKS AND ADJUST FOR OPTIMISM BIAS	NI Practical Guide section 2.6 Green Book chapter 5 and Annex 4; HMT supplementary guidance on the treatment of optimism bias.
7. WEIGH UP NON MONETARY COST & BENEFITS (INCLUDING NEW TSN & EQUALITY)	NI Practical Guide section 2.7 Green Book Annexes 2 & 5
8. CALCULATE NET PRESENT VALUES (NPVs) AND ASSESS UNCERTAINTIES	NI Practical Guide section 2.8 Green Book chapter 5 and Annex 6
9. ASSESS ARRANGEMENTS FOR FINANCING, MANAGEMENT, PROCUREMENT, MARKETING, MONITORING AND EX POST EVALUATION	NI Practical Guide sections 2.9, 10 & 11 Green Book chapters 6 & 7 NI Practical Guide section 4.5
10. ASSESS THE BALANCE BETWEEN THE OPTIONS AND PRESENT THE RESULTS & CONCLUSIONS	

Regulatory Impact Assessment

The work undertaken in completing Workbooks One, Two and Three will provide you with much of the information required to undertake a regulatory impact assessment.

Better Policy Making: A Practical Guide to Regulatory Impact Assessment provides detailed guidance on undertaking a partial or full RIA and includes an outline template to assist in structuring the RIA.

For information an RIA report should include the following elements:

1. **Title of Proposal**
   In full including EU document reference

2. **Purpose and Intended Effect of Measure**
   To include the objective, background to the issue and risk assessment

3. **Options**
   For addressing the issue

4. **Benefits**
   Identify and analyse the benefits

5. **Costs**
   Identify and analyse the costs

6. **Consultation with Small Business: The Small Business Impact Test**

7. **Enforcement and Sanctions**

Details of how the proposal will be enforced

8. Monitoring and Review

Detail how the effectiveness of the legislation will be measured

9. Consultation

List consultation undertaken within government and wider public consultation

10. Summary and Recommendation

Outline the recommended proposal and why this is being recommended

11. Declaration

Legal Aid Impact Test

If it is considered necessary to undertake a legal aid impact test following the screening exercise, further information can be obtained from the Northern Ireland Courts Service website: (http://www.courtsni.gov.uk/enGB/Services/Legal+Aid/Legal+Aid+Policy/p_a_Legalaidimpacttest.htm).

It should be noted that legal aid is not just about funding cases in court, legal advice and assistance can be available to inform people of their rights and obligations and entitlement, where a question of Northern Ireland Law is concerned. For example to explain how new legislation impacts on them individually or to advise on the entitlement and amount of state benefits payable. The Northern Ireland Courts Service legal aid team can be contacted to determine whether legal aid is an issue. The relevant contacts are:

- Paul Andrews- telephone 028 9041 2218
- Email: paulandrews@courtsni.gov.uk

The Court Service will provide you with an initial assessment of whether there are any implications for legal aid and the work of the courts arising from the policy proposal. If it is established that a potential impact would result on legal aid and the work of the courts you will need to obtain an estimate of costs. This can be obtained by contacting:

- Jonathan Mallen – Tel: 028 9041 2326
- Email: jonathanmallen@courtsni.gov.uk

You will need to have the following information available:

- A broad outline of the proposal
- What it is intended to achieve, in what timescale

- What commitments have been given and to whom; and
- How the proposal changes what happens now.

State Aid Compliance

European Union State Aid law is, in essence, about financial support given by Member State authorities (whether at national, regional or local level) to business. This might be in the form of a grant, or tax relief, or cheap loan, or a service provided at preferential rates. The State Aid rules are designed to prevent the distortion of competition between undertakings within the European single market.

There are four conditions for State Aid. If it is absolutely certain one or more than one of these conditions is not met, you are not dealing with a State Aid.

1. **The aid must be granted by the state or through state resources.**
   State resources includes public funds administered by the State through central, regional or local authorities, or other public or private bodies designated or controlled by the State. It includes indirect benefits such as tax exemptions that affect the public budget.

2. **It favours certain undertakings or production of certain goods.**
   It aids an undertaking, i.e. an entity engaged in economic activity. Economic activity is activity for which there is a market in comparable goods or services. It can include voluntary and non profit-making public or private bodies such as charities or universities when they engage in activities which have commercial competitors. It includes self-employed/sole traders, but generally not employees as long as the aid does not benefit the employers, private individuals or households.

   The aid is available to certain undertakings but not others in the Member State, e.g. it selects individual businesses, sectors, areas, sizes of business, or production of certain goods (a benefit available to all businesses in the UK is not State aid but a general measure).

It favours them by conferring an advantage on them. This includes the direct transfer of resources, such as grants and soft loans, and also indirect assistance – for example, relief from charges that an undertaking normally has to bear, such as a tax exemption or the provision of services for free or at a favourable rate such as an interest-free loan

3. **It distorts or threatens to distort competition.**
It potentially or actually strengthens the position of the recipient in relation to competitors. Almost all selective aid will have potential to distort competition – regardless of the scale of potential distortion or market share of the aid recipient.

4. **It affects trade between Member States.**
This includes potential effects. Most products and services are traded between Member States and therefore aid for almost any selected business or economic activity is capable of affecting trade between States even if the aided business itself does not directly trade with Member States. The only likely exceptions are single businesses, e.g. hairdressers or dry cleaners with a purely local market not close to a Member State border. The case law also shows that even very small amounts of aid can affect trade.

ASSESSING THE ENVIRONMENTAL AND SUSTAINABLE DEVELOPMENT IMPACTS

IMPACT ASSESSMENTS COVERED:

- **Assessment of Environmental and Sustainable Development Impacts:**
  - **Air Quality**
  - **Climate Change**
  - **Landscape and Land Use**
  - **Use of Natural Resources**
  - **Bio-Diversity**
  - **Noise**
- **Strategic Environmental Assessment**

The templates set out below provide a means for reviewing those issues which a public authority must consider in reaching a decision concerning the exercise of its functions. A public authority should be able to demonstrate a thorough consideration of the issues identified and that all potential positive and negative impacts are identified and assessed.

The templates are therefore presented as a tool for public authorities to use to examine the sustainable development implications of its decisions. The authority should make a list of all decisions it takes that have been subject to impact assessment. This list should be published annually together with an explanatory statement. As a minimum this publication should involve making a list of such decisions taken during the previous financial year available on its website by 1 May of each year.

Sustainable development takes account of the need to advance the economic and social well-being of the people of Northern Ireland at the same time as protecting and enhancing the natural and built environment. A duty to promote sustainable development is a duty to act in a manner that produces positive outcomes in terms of each of these three aims.

A public authority must be able to demonstrate that it has acted according to the duty and exceptionally where it does not consider this to have been reasonably practical, to demonstrate why.

In undertaking a Sustainable Development Impact Assessment , a number of questions should be given consideration by public authorities. These are included in the templates below as a means for reviewing those issues that a public authority must consider in reaching a decision concerning the exercise of its functions.

Satisfactory completion of the template will provide documentary evidence that a public authority made a decision concerning the exercise of its function in a manner compliant with the statutory duty.

Satisfactory completion demands that a public authority demonstrates a thorough consideration of the issues identified and that all potential positive and negative impacts are identified and assessed[12]. The template is intended to help public authorities consider a range of relevant factors in reaching a decision concerning the exercise of their functions.

There are four parts to the assessment. The first sets out the potential economic impacts that a decision may have and requires consideration of each of these in relation to positive and negative impact with respect to the decision being taken. The second and third parts do the same for the social and environmental impacts respectively. In each section the impacts are accompanied by guidance notes including a series of relevant questions to aid the consideration of impact. The notes and questions are not intended to be exhaustive or prescriptive list of all relevant factors but to give an indication of the factors relevant to the impact.

The fourth part requires an assessment, in light of the responses generated in response to the first three parts, as to whether the decision being taken is the best one calculated to contribute to the achievement of sustainable development within the region.

It may be necessary at this stage to review the issue being considered with a view to strengthening the sustainable development impact. Once no more improvement is possible, an assessment must be made as to whether it is reasonable to proceed. This guidance is intended to promote an active review of decisions to assess whether further positive sustainable development impacts can be developed.

In completing the sustainable development impact assessment, it will be necessary at times to engage a reasonable degree of proportionality in responding to identified impacts. Many initiatives and decisions will have a

[12] A list of all decisions subject to sustainable Development Impact Assessment must be published annually together with an explanatory statement. As a minimum this publication should involve making a list of such decisions taken during the previous financial year available on its website by 1 May of each year.

complex a range of impacts and it is not possible in all cases to reach a position in which positive impacts are achieved in relation to all relevant considerations in this assessment.

Sustainable development does not demand that unreasonable expenditure of public resources is used to achieve improvements in the sustainable development profile of a particular initiative. A public authority may decide not to implement an improvement to an initiative to improve sustainability on the grounds of the level of resource implication, provided it is satisfied that to do so would not be reasonably practical. It must however note this explicitly in the assessment and provide any relevant justification and comment.

In completing each part of the assessment, a public authority should include sufficient justification of its decisions in the box provided for explanation to enable its rationale for giving the answers it has given to be clear and to enable a judgement to be made as to its adequacy.

T

Will the policy impact on air quality?	
Part One: Scoping the impact	
Scoping:	Is the question relevant? Y/N What is the likely impact of the policy? Positive / Negative / Neutral If there is no impact, is there a gap or are there opportunities to develop the policy to promote a positive impact?
Overview of impact:	
Part Two: Consideration of evidence	
Additional guidance:	**Supporting Evidence**
Will it lead to a change in the	

emissions of air pollutants? Will it impact on the numbers of people affected by existing levels of air pollutants? Will it have a bearing on areas of existing poor air quality?	
Part Three: Suggested Improvements / Consideration of mitigating measures and/or policy alternatives	
If a negative impact has been identified what measures can be taken to reduce the negative impact of the policy?	
If a positive impact has been identified what measures can be taken to enhance the positive impact of the policy?	

Will the policy impact on climate change?	
Part One: Scoping the impact	
Scoping:	Is the question relevant? Y/N What is the likely impact of the policy? Positive / Negative / Neutral If there is no impact, is there a gap or are there opportunities to develop the policy to promote a positive impact?
Overview of impact:	
Part Two: Consideration of evidence	
Additional guidance:	**Supporting Evidence**
Will it lead to a change in the emissions of any of the six greenhouse gases? Will it impact on the need to travel within the region? If yes, will it encourage greater use of public transport or green forms of travel i.e. walking, cycling? Will it affect, or be affected by vulnerability to the predicted effects of climate change i.e. flooding?	
Part Three: Suggested Improvements / Consideration of mitigating measures and/or policy alternatives	
If a negative impact has been identified what measures can be taken to reduce the negative impact of the policy?	
If a positive impact has been identified what measures can be taken to enhance the positive impact of the policy?	

Will the policy impact on the landscape or land use?	
Part One: Scoping the impact	
Scoping:	Is the question relevant? Y/N What is the likely impact of the policy? Positive / Negative / Neutral If there is no impact, is there a gap or are there opportunities to develop the policy to promote a positive impact?
Overview of impact:	
Part Two: Consideration of evidence	
Additional guidance:	**Supporting Evidence**
Does the policy conform or have regard to the Regional Development Strategy? Will it involve visually intrusive construction works? Will it contribute to the protection/conservation and management of the natural and built environment assets of the region?	
Part Three: Suggested Improvements / Consideration of mitigating measures and/or policy alternatives	
If a negative impact has been identified what measures can be taken to reduce the negative impact of the policy?	
If a positive impact has been identified what measures can be taken to enhance the positive impact of the policy?	

Will the policy impact on the use of natural resources?	
Part One: Scoping the impact	
Scoping:	Is the question relevant? Y/N What is the likely impact of the policy? Positive / Negative / Neutral If there is no impact, is there a gap or are there opportunities to develop the policy to promote a positive impact?
Overview of impact:	
Part Two: Consideration of evidence	
Additional guidance:	**Supporting Evidence**
Will it safeguard or otherwise impact on natural non-renewable resources? Will it affect the efficient use of energy or water? Will it impact on levels of waste or encourage re-use and recycling of waste material? Will it impact on water pollution? Will it impact on water abstraction or otherwise affect the flow, run-off or recharge of water?	
Part Three: Suggested Improvements / Consideration of mitigating measures and/or policy alternatives	
If a negative impact has been identified what measures can be taken to reduce the negative impact of the policy?	
If a positive impact has been identified what measures can be taken to enhance the positive impact of the policy?	

Will the policy impact on bio-diversity within the region?	
Part One: Scoping the impact	
Scoping:	Is the question relevant? Y/N What is the likely impact of the policy? Positive / Negative / Neutral If there is no impact, is there a gap or are there opportunities to develop the policy to promote a positive impact?
Overview of impact:	
Part Two: Consideration of evidence	
Additional guidance:	**Supporting Evidence**
Will it involve disturbance or relief of disturbance to habitats or species by change of land use, light or noise? Will it lead to severance, fragmentation, isolation or change in size of habitats?	
Part Three: Suggested Improvements / Consideration of mitigating measures and/or policy alternatives	
If a negative impact has been identified what measures can be taken to reduce the negative impact of the policy?	
If a positive impact has been identified what measures can be taken to enhance the positive impact of the policy?	

Will the policy impact on levels of noise?	
Part One: Scoping the impact	
Scoping:	Is the question relevant? Y/N What is the likely impact of the policy? Positive / Negative / Neutral If there is no impact, is there a gap or are there opportunities to develop the policy to promote a positive impact?
Overview of impact:	
Part Two: Consideration of evidence	
Additional guidance:	**Supporting Evidence**
Will it lead to an increase or decrease in exposure to noise of sensitive buildings i.e. schools and hospitals? Will it impact on the number of people affected by existing noise? Will it lead to a change in standards or use that would increase or decrease the noise generated by products?	
Part Three: Suggested Improvements / Consideration of mitigating measures and/or policy alternatives	
If a negative impact has been identified what measures can be taken to reduce the negative impact of the policy?	
If a positive impact has been identified what measures can be taken to enhance the positive impact of the policy?	

Part 1 Economy

Will the proposal impact on any of the following economic considerations?

	Positive Effect		Negative Effect		No Effect
Infrastructure Infrastructure in this section is concerned with the adequacy of infrastructure such as transport corridors, telecommunications infrastructure, the electricity grid, water supply and waste management infrastructure to support economic development.					
Skills and education Development of skills relevant to employment can occur in a wide variety of ways, by training or education, obviously, but also by gaining relevant experience through access to employment or community and voluntary work, or by improving access to resources to enable development, such as libraries and IT facilities.					
Employment Improving the number and quality of available jobs and facilitating the movement of people into employment, in particular the long term unemployed.					
Attracting investment Attracting inward investment is about improving the desirability of an area as an economic prospect, but also more generally. Investors considering setting up business in an area will be influenced by the workforce in the area, the infrastructure, the business climate, competitiveness of operating costs, such as property, telecommunications, labour and energy, quality of life in the area and public service provision relevant to their business needs.					
Attracting tourists and consumers The attractiveness of an area to tourists and consumers from outside the area will depend on the physical attractiveness of the area, on the social and cultural amenities available there, and on the degree to which visitors are made to feel welcome in the area. In addition, to derive economic benefit from tourist and consumer visits, there must be commercial enterprise in place to take advantage of the opportunities that visitors present.					
Creation of opportunity for enterprise or entrepreneurship Promoting a culture that supports enterprise and entrepreneurship involves better regulation to remove administrative and regulatory barriers to an enterprise culture, encouraging entrepreneurial and enterprising attitudes, through education and training in childhood and through life that fosters such attitudes, and providing public sector leadership by making enterprising decisions, empowering staff to do the same, and advertising this fact.					
Promotion of creativity and innovation Promoting creativity and innovation is about seeing sustainable development as an economic opportunity for the innovation of imaginative community-based or cutting-edge technological solutions. This can be achieved through addressing issues in partnership with community-based organisations, private sector partners and others to explore innovative solutions and by ensuring that public procurement processes are open to the delivery of innovative solutions.					
Regulatory burden on private/third sector A public authority should avoid placing any unnecessary regulatory, administrative or other burden on non-public sector organisations.					

	Positive Effect		Negative Effect		No Effect
Supporting small and medium sized enterprises Public authorities should have regard to the effects of their policies on SMEs, which make up a high proportion of the Northern Ireland economy. For example, in making procurement arrangements, authorities should be concerned to use contracting arrangements which tend to support the more limited capacity of SMEs to engage with complicated public procurement procedures.					
Supporting market transformation Market transformation is the evolution of products and services available towards more sustainable options. It can be supported by public authorities by requiring the use of sustainable products and services in areas over which they have influence. Two such areas are in public procurement and planning decisions. In each of these areas, mandating sustainable solutions can be used to promote innovation and therefore market transformation.					

Explanation:

What scope is there to derive further positive benefits, or to mitigate any negative impacts on the economic considerations identified above?

Part 2 Society

Will the proposal impact on any of the following social considerations?

	Positive Effect		Negative Effect		No Effect
Public Health There are many recognised determinants of public health – quality of the physical and built environment, diet, access to facilities for exercise, including access to the countryside and areas of natural beauty, elimination of poverty and inequality and social inclusion are all examples. Determinants of mental health as well as physical health should be considered.					
Social inclusion Social inclusion is about reducing inequalities between the least advantaged groups and communities and the rest of society by closing the opportunity gap and ensuring that support reaches those who need it most. Access to services and opportunities for economic and social development for all can be influenced by the availability of services and the physical, social and economic capacity of individuals and groups to access them.					
Good relations Tackling sectarianism and other social division involves tackling their visual and physical manifestations to remove levels of intimidation and exclusivity of areas of Northern Ireland, increasing the areas where all sections of the community feel safe and included, and breaking down institutional manifestations of the divided society – such as parallel provision of services. Rigorous defence of human rights and equality and consistent and firm opposition and challenge to intolerance and intimidation are required.					
Access to cultural, recreational and other facilities and services In addition to provision of such facilities and services, other factors influence their accessibility of individuals. Ensuring that people have physical access to facilities and services, including those with mobility restrictions or limited access to transport is a relevant consideration, as is the degree to which people feel comfortable using facilities and services, which can be restricted by an association or a lack of an association between the facilities or services in question and people from a particular social or cultural background. General availability of cultural, recreational and other services to the community should be considered and opportunities taken to increase their availability by encouraging or facilitating provision by private or third sector organisations and individuals, for example by making public facilities such as buildings available to such organisations, by partnership working, or by reducing unnecessary regulatory or administrative burdens on organisations involved.					
Public safety Levels of road safety, and safety in the workplace and the home can be influenced by provision of a safe infrastructure, delivering public messages about safety and ensuring that health and safety at work standards are maintained by public authorities and those with whom they work.					
Levels of crime and fear of crime Removing factors contributing to increased crime levels, such as poverty and deprivation, social exclusion, inequality, unemployment and drug and alcohol abuse should be considered a positive sustainable development impact. As should removing factors which contribute to a fear of crime such as visible signs of vandalism and disorder in public places, poor quality physical environments and anti-social behaviour.					

	Positive Effect		Negative Effect		No Effect
Promoting fair trade Fair trade is a system under which third world producers are guaranteed fair prices for the goods they produce for export regardless of prevailing market conditions. Many products cannot be sourced locally and purchasing fair trade versions of these products, and advertising the fact that they are doing so, is one way in which public authorities can use their public spending to promote sustainability.					
Eliminating poverty Eliminating poverty is about more than wealth and job creation, it is about decreasing the level of economic inequality in Northern Ireland and about addressing specific issues such as fuel poverty.					
Empowering people and communities Empowering people and communities is building capacities in communities to enable people to take action to improve the places and conditions in which they live. This involves the creation of opportunities for individual and community level action and social enterprise, and also making people more involved in the decision making that affects their lives.					
Decent housing Standards of housing, including in particular social housing, are critical to eliminating social inequality.					
Supporting rural communities Rural and urban communities face different challenges that require different approaches to address them. In taking decisions, public authorities should consider the differential impact in these two types of community and whether a tailored approach to each type of community is required.					
Supporting urban communities Rural and urban communities face different challenges that require different approaches to address them. In taking decisions, public authorities should consider the differential impact in these two types of community and whether a tailored approach to each type of community is required.					

Explanation:

What scope is there to derive further positive benefits, or to mitigate any negative impacts on the social considerations identified above?

Part 3 Environment

Will the proposal impact on any of the following environmental considerations?

	Positive Effect		Negative Effect		No Effect
Air Pollution To ensure an accurate assessment of pollution effects, a holistic view must be taken of all the action consequent on a decision being taken and the resultant generation of pollutants.					
Water Pollution To ensure an accurate assessment of pollution effects, a holistic view must be taken of all the action consequent on a decision being taken and the resultant generation of pollutants.					
Pollution of Land To ensure an accurate assessment of pollution effects, a holistic view must be taken of all the action consequent on a decision being taken and the resultant generation of pollutants.					
Biodiversity Conserving and promoting biodiversity means ensuring that human activity and development does not damage the sensitive habitats that support biodiversity, and the creation of habitats, where possible for threatened species. Effects in the locality affected by a decision should be considered, but also wider biodiversity effects associated with, for example, the sourcing of sustainably sourced timber, and the production of certain agricultural products, such as vegetable oil, that can involve the destruction of sensitive habitats.					
Greenhouse Gas Emissions Emissions of greenhouse gas are caused by any use of fossil fuels, any reduction in fossil fuel use will therefore reduce emissions. This may be through reduction in demand for energy-consuming goods or activities, greater efficiency in energy use or substituting another energy source for fossil fuels. Also, CO_2 is not the only greenhouse gas. Methane and other gases also make a significant contribution to global warming. Decisions affecting farming of animals should pay particular attention to the potential impacts on methane production.					
Promoting renewable energy generation Renewable generation can be promoted through removal of barriers to installation of facilities, encouraging and incentivising use of renewable energy and installation of generation facilities and by procurement of renewable energy and installation of facilities on the public estate.					
Preparing for climate change impacts Climate change impacts are beginning to be seen and will increasingly be seen in the years to come. Consideration should be given to the potential to protect communities against climate change impacts such as flooding in relevant decision making processes.					
Water consumption This refers in particular to reduction in demand for potable water. Measures which reduce water demand or wastage will have a positive impact; so will measures such as the use of 'grey-water' as a substitute for potable water where it is fit for purpose.					
Resource efficiency Resource efficiency is about a thorough-going approach to eliminating the waste of resources. It, therefore, includes reducing the demand for physical resources of all types, using physical resources that are reusable rather than consumable, where possible and about deriving useful resources from waste streams by recycling and using recycled products.					

	Positive Effect		Negative Effect		No Effect
Access to an attractive natural/built environment In planning, development and maintenance of public spaces consideration should be given to the physical attractiveness of the built environment created and the natural environment affected. Issues such as transportation and industry can be affected by public authorities' decisions and can affect the physical environment by creating excess noise or affecting public safety. The impact of any decision on the physical environment in which people live should be considered.					
Ensuring environmental justice Environmental justice is about ensuring that the negative environmental impacts of one person's behaviour are not felt principally by others rather than themselves and that certain people or groups are not disproportionately affected by negative environmental impacts. It is summed up by the 'polluter pays' principle, that, where possible, negative environmental impacts should fall on and be redressed by those who cause them.					
Promoting sustainable transport Adequate transport infrastructure is essential to the economic and social development of Northern Ireland society. Individuals need access to transport to gain access to employment, to engage with society and to gain access to services. It is also essential to organisations including the private sector in enabling them to carry out their functions. Transport has, however, a serious impact on the environment. Transport carbon emissions contribute to climate change, pollution from transport has implications for human health and biodiversity. Consideration should be given to the potential of any initiative to reduce or increase demand for transportation, or to influence modes of transport used and to whether any aspect of the planning of an initiative could be changed to produce a more positive impact in these terms.					
Promoting sustainable food production Agriculture and food production is a large sector in the Northern Ireland economy and has the potential to make substantial contributions to the sustainability of society as a whole. Agricultural and food production and processing methods have impacts on the health of the population and the condition of the natural environment. All influences, direct and indirect on this sector of business have the potential to produce large sustainability impacts and will need to be considered. Particular thought should be given to the market transformation potential of public sector food procurement.					
Promoting sustainable construction The construction sector has a huge influence on society's sustainability due to its levels of materials and energy consumption. The industry has made significant progress in addressing this impact. By specifying environmental performance standards in the procurement of buildings and infrastructure, a public authority can ensure the sustainability of its buildings and promote innovation and sustainability in the sector.					

Explanation:

What scope is there to derive further positive benefits, or to mitigate any negative impacts on the environmental considerations identified above?

Part 4 Conclusion

	Yes		No
In light of the responses to the questions in Parts 1, 2 and 3, and any revisions to the policy identified, is the policy the one best calculated to contribute to the achievement of sustainable development in Northern Ireland?			
If the policy is not the one best calculated to contribute to the achievement of sustainable development, is it reasonably practicable to abandon the policy in favour of the policy that is best calculated to contribute to the achievement of sustainable development in Northern Ireland?			

Explanation:

Strategic Environmental Assessment

Undertaking a Strategic Environmental Impact Assessment (SEA) can be a complex exercise. Therefore, before initiating a SEA policymakers should consult with Environmental Heritage Service (EHS) who will help you work through the SEA process.

To assist policymakers, a *Practical Guide to the Strategic Environmental Assessment Directive* has also been developed jointly by the Office of the Deputy Prime Minister, the Scottish Executive, the Welsh Assembly Government and the Department of the Environment in Northern Ireland. For practical guidance on SEA policymakers should refer to that document. It is further recommended that the guidance should be read in conjunction with the SEA Directive and the relevant Regulations which transpose it into UK law. For Northern Ireland the key regulations are:

The Environmental Assessment of Plans and Programmes Regulations 2004 (Statutory Instrument 2004 No.1633)
Applies to any plan or programme which relates either solely to the whole or any part of England, or to England and any other part of the UK.

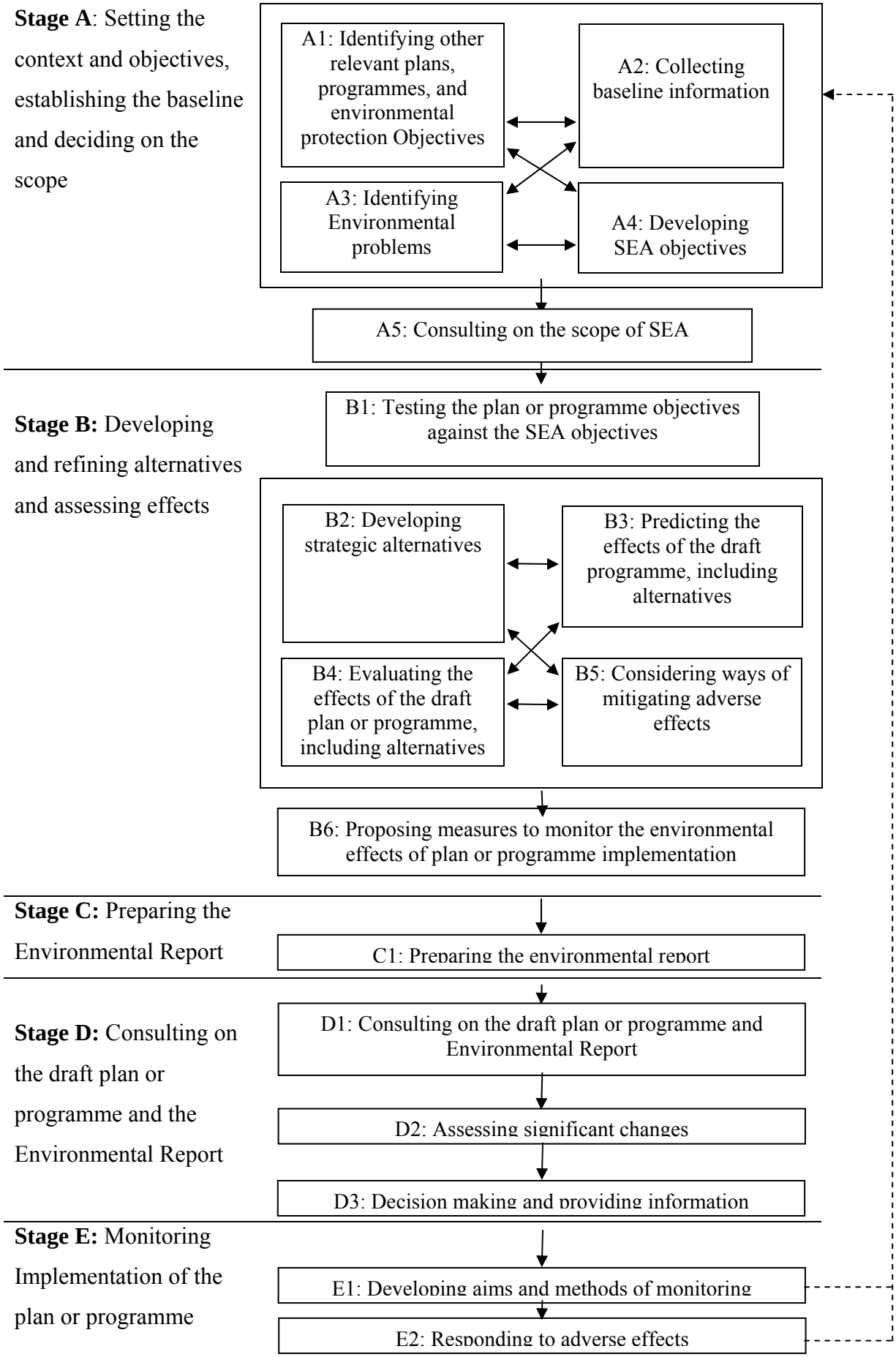
The Environmental Assessment of Plans and Programmes Regulations (Northern Ireland) 2004 (Statutory Rule 2004 No. 280)
Applies to plans and programmes which relate solely to the whole or any part of Northern Ireland.

For information an overview of the key stages of a SEA and the relationship between those stages is provided below.

Stages in the SEA Process	
SEA Stages and Tasks	**Purpose**
Stage A: Setting the context and objectives, establishing the baseline and deciding on the scope.	
Identifying other relevant plans, programmes an d environmental protection objectives	To establish how the plan or programme is affected by outside factors, to suggest ideas for how any constraints can be addressed, and to help to identify SEA objectives.
Collecting baseline information	To provide an evidence base for environmental problems, prediction of effects, and monitoring, to help in development of SEA objectives.
Identifying environmental problems	To help focus the SEA and streamline the subsequent stages, including baseline information analysis, setting of the SEA objectives, prediction of effects and monitoring.
Developing SEA objectives	To provide a means by which the environmental performance of the plan or programme and alternatives can be assessed.
Consulting on the scope of the SEA	To ensure that the SEA covers the likely significant environmental effects of the plan or programme.
Stage B: Developing and refining alternatives and assessing effects	
Testing the plan or programme objectives against the SEA objectives	To identify potential synergies or inconsistencies between the objectives of the plan or programme and the SEA objectives and help in developing alternatives.
Developing strategic alternatives	To develop and refine strategic alternatives.
Predicting the effects of the plan or programme, including alternatives	To predict the significant environmental effects of the plan or programme and alternatives.
	To evaluate the predicted effects of the plan or programme and its alternatives and assist in the refinement of the plan or programme.
	To ensure that adverse effects are identified and potential mitigation measures are considered.
	To detail the means by which the environmental performance of the plan or programme can be assessed.
Stage C: Preparing the Environmental Report	
	To present the predicted environmental effects of the plan or programme, including alternatives, in a form suitable for public consultation and use by decision-makers.
Stage D: Consulting on the draft plan or programme and the Environmental Report	
	To give the public and the Consultation Bodies an opportunity to express their opinions on the findings of the Environmental Report and

Stages in the SEA Process	
SEA Stages and Tasks	**Purpose**
	to use it as a reference point in commenting on the plan or programme. To gather more information through the opinions and concerns of the public.
	To ensure that the environmental implications of any significant changes to the draft plan or programme at this stage are assessed and taken into account.
	To provide information on how the Environmental Report and consultees' opinions were taken into account in deciding the final form of the plan or programme to be adopted.
Stage E: Monitoring the significant effects of implementing the plan or programme on the environment	
	To track the environmental effects of the plan or programme to show whether they are as predicted; to help identify adverse effects.
	To prepare for appropriate responses where adverse effects are identified.

Realtionahip between the SEA Tasks



4.4 Consultation

Consultation is a key part of the impact assessment process, and is a critical requirement in areas such as Equality and Regulatory Impact Assessment.

Consultation must be carried out before the final decision stage. It must also be effective. As such, consultation must be carried out with relevant interest groups as well as the Equality Commission, other public bodies, voluntary, community, trade union and other groups with a legitimate interest in the matter. Consultation should also include those directly affected by the policy to be assessed, whether or not they have a personal interest. It should also be timely, open and inclusive.

It is recommended that where the Guide is applied, the results should be made available as part of the formal consultation on the policy area. A suggested template to present the findings of the impact assessments is attached at Annex 1 for information.

However, a number of impact assessments may require the publication of a separate document i.e. Equality Impact Assessment (EQIA), Strategic Environmental Assessment (SEA) and Regulatory Impact Assessment.(RIA).

Until a consultation has been undertaken, the associated impact assessments should be regarded as draft.

The issue of consultation is considered in more detail in Workbook 5.

4.5 Prioritising the Impacts

Having completed the assessment of impacts, the next stage is to begin the process of prioritising the impacts in order to frame recommendations. There are four steps to this process as outlined below.

Step 1:

In the table below, list both the negative and positive impacts of the policy, programme or project. This will serve as a record of all impacts identified. At this stage it is useful to assign a number to each impact in column A or B, the number is for reference purposes and use in the following tables, it does not represent the priority of the impact at this stage.

IMPACT S	Negative Impacts		Positive Impacts	
	A		B	
SOCIAL IMPACTS				
Crime				
Community Safety & Victims				
Equality				
Health				
Human Rights				
Rural				
Social Inclusion				
ECONOMIC IMPACTS				
Economic Impact Assessment				
Regulatory				
State Aid				
ENVIRONMENTAL IMPACTS				
Environmental				
Strategic Environmental				

Step 2

The next stage in prioritisation is to consider the significance of the positive or negative impacts, and the probability of that occurring.

The criteria for prioritisation will depend on the specific circumstance of individual impact assessments. However, the tables below provide a useful tool in this regard.

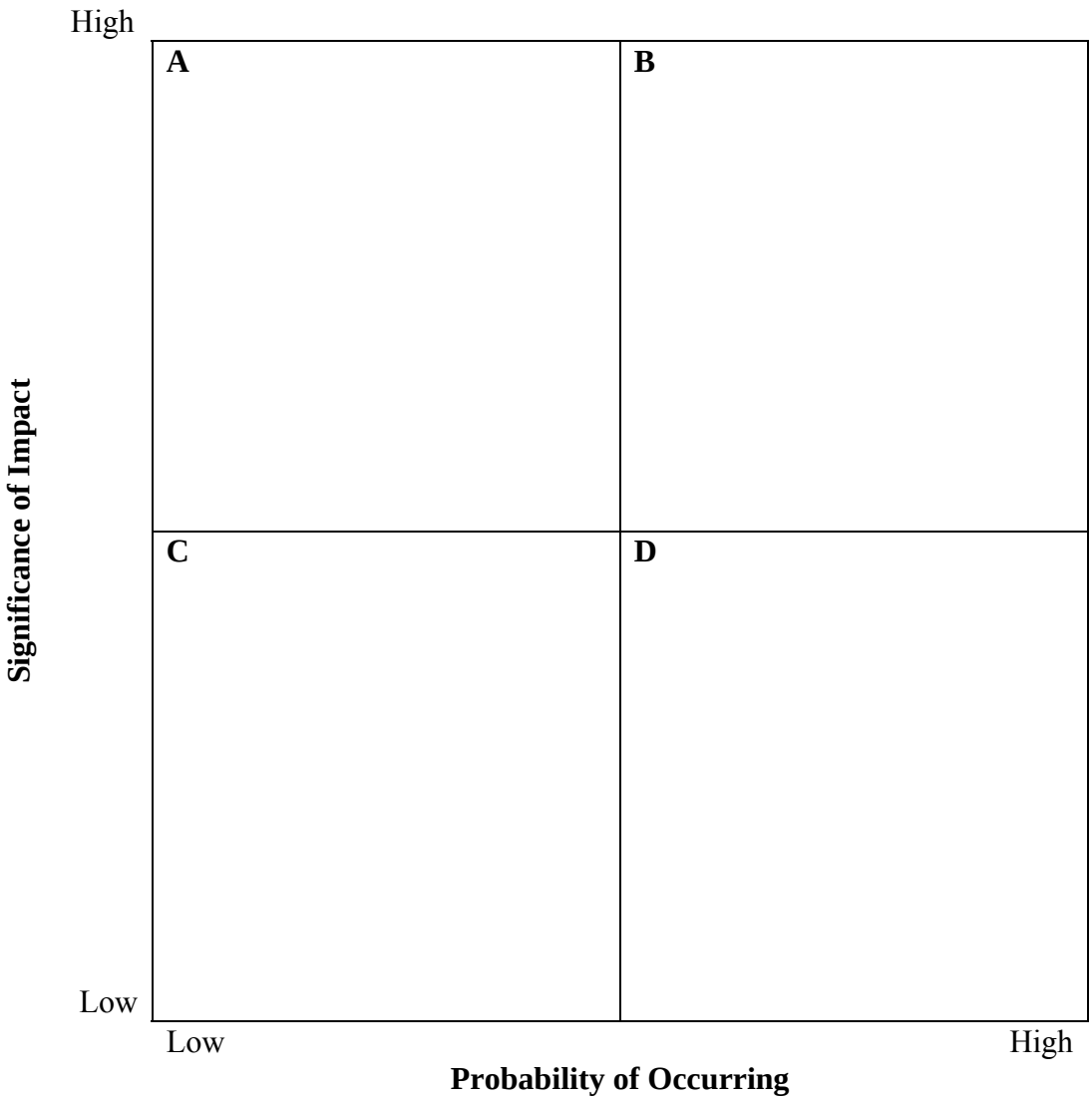
	Negative Impacts						
	IMPACT (Insert Number from previous table)	**Significance of Impact**			**Probability of Occurring**		
		High	Medium	Low	Highly Likely to Occur	Low probability of Occurring	Unlikely to Occur
SOCIAL IMPACTS							
Crime							
Community Safety & Victims							
Equality							
Health							
Human Rights							
Rural							
Social Inclusion							
ECONOMIC IMPACTS							
Economic Impact Assessment							
Regulatory							
State Aid							
ENVIRONMENTAL							
Environmental							
Strategic Environmental							

	Positive Impacts						
	IMPACT (Insert Number from previous table)	**Significance of Impact**			**Probability of Occurring**		
		High	Medium	Low	Highly Likely to Occur	Low probability of Occurring	Unlikely to Occur
SOCIAL IMPACTS							
Crime							
Community Safety							
Equality							
Health							
Homelessness							
Human Rights							
New TSN							
Rural							
Victims							
ECONOMIC IMPACTS							
Economic							
Regulatory							
State Aid							
ENVIRONMENTAL							
Environmental							
Strategic Environmental							

Step 3

Using the information in the tables above, chart each of the impacts in the diagram below. For example, if an impact is highly significant and highly likely to occur, it would be plotted in quadrant B. If, on the other hand, it was low impact and unlikely to occur it would be plotted in quadrant C. This exercise should be repeated for both positive and negative impacts.

Over time the potential significance or probability of an impact occurring may change. It is therefore advisable to repeat this exercise at regular intervals, to determine whether impacts need to be reprioritised.



Step 4

Based on the information in the chart above, the next stage is to prioritise both the positive and negative impacts using the tables below.

All impacts identified as significant, either high or medium, and likely to occur will be recorded in cell B. It is these impacts which should be prioritised.

Prioritised Positive Impacts	**Recommendations to maximise positive impacts** (Include an overview of the intended outcome)

Prioritised Negative Impacts	**Recommendations to minimise negative impact** (Include an overview of the intended outcome)

4.6 Agreeing Recommendations & Implementation

Having prioritised the impacts and recommendations, the next stage in the process is to discuss the prioritised impacts/recommendations and agree which are to be accepted as part of the policy, recording these in the chart below. It is recommended at this stage that you clarify the intended outcome associated with the –

Those recommendations which are not accepted will be considered further as part of the monitoring of the impact assessment process and you will therefore need to clarify why recommendations in relation to impacts have or have not been accepted.

What recommendations have been accepted?

Using the table below, clarify how those recommendations will be implemented.

Accepted Recommendations	Method of Implementation

4.7 Decision and Publication of Report on Results of Impact Assessment

The decision making process in relation to the final policy recommendation is addressed in detail in Workbook 5. However, it is important to highlight at this stage that decision makers should take into account the outcome of the impact assessment process in reaching a final decision. This requires as part of the decision making process, clear evidence of the consideration of impacts and details of what mitigating measures have been considered and how the impacts will be addressed. Where an impact has been identified, but an alternative approach has not been accepted, justifications must be given for the rationale behind this position.

The outcomes of the impact assessments should, therefore, be included as part of the decision making documentation and should be accorded due regard. This is particularly relevant with regard to Equality. Public authorities have a statutory duty to have due regard to the need to promote equality of opportunity. It is not sufficient merely to take equality into account; it must be accorded considerable weight. That is, the need to promote equality of opportunity must be given due regard or weight in accordance with Section 75. However, this does not necessarily mean that the equality duty overrides other clearly conflicting statutory duties. Instead, the public authority must act in a proportionate manner and accord weight to both administrative considerations and the statutory equality of opportunity duty.

4.8 Monitoring & Evaluation

Monitoring and evaluation is an integral stage of the impact assessment process. Monitoring and evaluation looks at the following areas:

Process

It assesses how the impact assessment process was undertaken, who was involved, and how useful and valuable the process was. It determines whether the impact assessment added value to the decision making process.

Impact

The monitoring and evaluation tracks whether recommendations are subsequently accepted and implemented by the decision makers and if not, tries to determine why not.

Monitoring and evaluation of the process and methodology can be conducted by reading output documents, minutes, agenda and other material and getting steering group members' points of view through a survey or interview.

Monitoring the longer term impacts

Monitoring and evaluation should also consider the outcomes of a proposal after impact assessment has been conducted. It should aim to assess whether the anticipated positive effects were in fact enhanced and whether negative ones were minimised.

The long term impacts of a policy may take many years to become apparent. For this reason, indicators to measure the longer term impacts of the proposal should be framed and these should be included as a discrete strand of the ongoing monitoring of the policy or project. Recognising that over time the potential significance or probability of an impact occurring may change, the ongoing monitoring of the policy should also periodically reconsider the prioritisation of impacts.

Recognising the above, the first stage in the monitoring process is to clarify what recommendations identified as a result of the impact assessments have not been accepted. The table below provides a useful template.

Rejected Recommendations	**Reason for Rejection**

The next stage in the monitoring process is to identify how you will monitor the impact of the accepted recommendations. In this case it is useful to outline the intended outcome of the recommendation. This should clarify what information is required to determine the impact and whether the desired outcome is being achieved**.**

Accepted Recommendations (Include overview of intended outcomes)	**Method of Monitoring**

Finally, as outlined above, the long term impacts of a policy may take many years to become apparent. For this reason, indicators to measure the longer term impacts of the proposal should be framed. The indicators should reflect

the key areas the policy has the potential to impact upon and therefore should reflect the findings of the impact assessments.

To be meaningful indicators should as far as possible be measurable. Using the table below, it is recommended that you identify appropriate indicators to measure the long term impacts of the policy and identify the information required to measure progress. This will help clarify whether new information sources are required.

Potential Impacts	Indicators	Method of Monitoring

ANNEX 1

TEMPLATE FOR PRESENTING / CONSULTING ON THE RESULTS OF AN IMPACT ASSESSMENT (IA)

The following template provides a suggested format for presentation of the findings of an impact assessment, where it is decided to publish the findings in a single document. This should be viewed as a flexible format which can be adapted as appropriate. Ultimately it is for the relevant department / body to determine the most appropriate framework to present the findings of individual impact assessments.

1. Introduction
2. Background
3. How to Respond (where the document is issued for consultation)
4. Focus of the Impact Assessment and Approach
5. Consideration of Available Evidence
6. Outcome of Screening Exercise
7. Impact Assessments
8. Prioritisation of the Impacts
9. Recommendations
10. Monitoring & Evaluation

1. Introduction

The Introduction should briefly state the area the IA has been carried out on. For example:

This Impact Assessment addresses/considers the Department's proposals for taking forward policy on ….

2. *Background*

The Background should provide a **brief** overview of the policy area as follows:

- The aim of the policy
- Overview of the policy area, highlighting:
  - Historical context, and recent developments
  - The need for intervention
  - Key steps in the development of the policy, including reference to published documents
  - Details of any consultation or engagement undertaken
  - Key issues and recommendations (where appropriate)

3. *How to Respond*

This section should include:

- **A summary of the questions** on which you want respondents to comment.
- **The closing date** of the consultation
- The name, postal address, email address, telephone and fax numbers of the person to whom responses should be sent
- A brief outline of other consultation exercises running alongside the written consultation and details of how to get involved in these
- Information about how the responses will be used
- A standard disclaimer on Freedom of Information and confidentiality.

The consultation document should state the date when, and the web address where, responses will be published, if applicable and/or where the summary of responses will be published. As far as possible this

should be within three months of the closing date of the consultation.

It should be made clear that **responses may be made public unless confidentiality is specifically asked for**. With some subjects – such as where the responses may concern individuals' private lives, or matters of commercial confidentiality, this may need to be flagged up especially prominently, so that no-one inadvertently fails to register a wish for confidentiality. In some cases, confidentiality cannot be guaranteed, e.g. where a response includes evidence of serious crime: this may also need to be brought out.

4. Focus of the Impact Assessment & Approach

Here you should outline the focus of the impact assessment, for example whether it is considering a range of options or a preferred approach, or whether it will consider the broad policy area in general or focus on specific recommendations etc.

In this section you should also detail how the impact assessment has been taken forward, i.e. was it taken forward as part of the policy process, was a steering group established etc.

5. Consideration of Available Evidence

In this section simply provide a list of the evidence considered. This should include a brief description of the evidence source. For example:

> ***Northern Ireland Census***
> *A census of population is normally taken every ten years and is carried out by the Census Office for Northern Ireland (CONI). The census provides essential statistical information about the population and households for all parts of the country. The most recent results available are from the 2001 census returns.*

Where appropriate you may wish to include the template at p? to summarise the evidence base.

6. Outcome of the Screening Exercise

Here you should provide an overview of the outcome of the screening exercise. The template at p32 may be utilised to present your findings.

7. Assessment of Impacts

The tabular format provided in the impact assessment is unlikely to be a suitable medium for the presentation of your findings in this section.

In general, for the purposes of clarity it may be useful to address each of the impact areas separately in this section while recognising that there is a considerable degree of overlap between a number of the assessments.

The level of detail provided in this section should be proportionate.

However, to avoid an overly complex and lengthy document, in presenting your results you may wish to focus only on the identified impacts under each assessment area. For example:

> ***Rural Impact Assessment***
> *The policy has considered the impact of the proposals on rural areas in line with the framework provided in the Guide to Impact Assessments and has identified a potential impact with regard to the delivery of the service to young people in rural areas.*

The assessment should provide an overview of:

- the potential impact, including significance and likelihood of occurring;
- detail the evidence and conclusions reached; and
- outline any recommendations.

8. Prioritisation of the Impacts

Here you may wish to use the templates attached at section 4.4 of the Guide to present your findings.

9. Recommendation

Detail the recommendations to be taken forward highlighting the expected outcomes and confirming how these will be implemented. You may also wish to highlight those recommendations which you do not propose to take forward at this stage, outlining the rationale for decisions.

The templates at 4.5 and 4.6 may provide a useful summary.

10. Monitoring & Evaluation

In this final section you should detail how you will monitor and evaluate the impact of the policy over the longer term. This should include reference to any indicators identified and also detail which department / branch / body will be responsible for monitoring and evaluation.

ANNEX 2

TEMPLATE FOR PRESENTING / CONSULTING ON THE RESULTS OF AN EQIA

The following template provides a suggested format for presentation of the findings of an EQIA. This should be viewed as a flexible format which can be adapted as appropriate. Ultimately it is for the relevant department / body to determine the most appropriate framework to present the findings of individual EQIA in line with relevant guidance.

1. Introduction
2. Background
3. How to Respond (where the document is issued for consultation)
4. Focus of EQIA and Approach
5. Consideration of Available Evidence
6. Outcome of Screening Exercise
7. Impact Assessments
8. Recommendations
9. Monitoring & Evaluation

1. Introduction

The Introduction should briefly state the area the EQIA has been carried out on. For example:

> *This Equality Impact Assessment addresses/considers the Department's proposals for taking forward policy on ….*

2. Background

The Background should provide a **brief** overview of the policy area as follows:

- The aim of the policy
- Overview of the policy area, highlighting:
  - Historical context, and recent developments
  - The need for intervention
  - Key steps in the development of the policy, including reference to published documents
  - Details of any consultation or engagement undertaken
  - Key issues and recommendations (where appropriate)

3. How to Respond

This section should include:

- **A summary of the questions** on which you want respondents to comment.
- **The closing date** of the consultation
- The name, postal address, email address, telephone and fax numbers of the person to whom responses should be sent
- A brief outline of other consultation exercises running alongside the written consultation and details of how to get involved in these
- Information about how the responses will be used
- A standard disclaimer on Freedom of Information and confidentiality.

The consultation document should state the date when, and the web address where, responses will be published, if applicable and/or where the summary of responses will be published. As far as possible this should be within three months of the closing date of the consultation.

It should be made clear that **responses may be made public unless confidentiality is specifically asked for**. With some subjects – such as where the responses may concern individuals' private lives, or matters of commercial confidentiality, this may need to be flagged up especially prominently, so that no-one inadvertently fails to register a wish for confidentiality. In some cases, confidentiality cannot be guaranteed, e.g. where a response includes evidence of serious crime: this may also need to be brought out.

6. Focus of the Equality Impact Assessment & Approach

Here you should outline the focus of the EQIA, for example whether it is considering a range of options or a preferred approach, or whether it will consider the broad policy area in general or focus on specific recommendations etc.

In this section you should also detail how the EQIA has been taken forward, i.e. was it taken forward as part of the policy process, was a steering group established etc.

7. Consideration of Available Evidence

In this section simply provide a list of the evidence considered. This should include a brief description of the evidence source. For example:

> ***Northern Ireland Census***
> *A census of population is normally taken every ten years and is carried out by the Census Office for Northern Ireland (CONI). The census provides essential statistical information about the population and households for all parts of the country. The most recent results available are from the 2001 census returns.*

8. Outcome of the Screening Exercise

Here you should provide an overview of the outcome of the screening exercise.

9. Assessment of Impacts

The tabular formats provided in the Guide to Impact Assessments is unlikely to be suitable medium for the presentation of your findings in this section.

It is important here to detail what impacts have been identified and how these have been considered. It is not enough to simply outline the evidence, you must draw conclusions and consider what the evidence is suggesting/confirming.

In particular, the assessment should provide an overview of:

- the potential impact, including significance and likelihood of occurring;
- detail the evidence and conclusions reached; and
- outline any recommendations.

10. Recommendation

Here detail the recommendations to be taken forward highlighting the expected outcomes and confirming how these will be implemented. You may also wish to highlight those recommendations which you do not intend to take forward at this stage, outlining the rationale for decisions.

The templates at 4.5 and 4.6 may provide a useful summary.

11. Monitoring & Evaluation

In this final section you should detail how you will monitor and evaluate the impact of the policy over the longer term. This should include reference to any indicators identified and also detail which department / branch / body will be responsible for monitoring and evaluation.

Effective Policy Making

Workbook Five:

From Consultation to Announcement

Policy Innovation Unit

INTRODUCTION

This workbook is the fifth in a series of five which seeks to provide a practical overview of the key steps in the policy development process as outlined below:

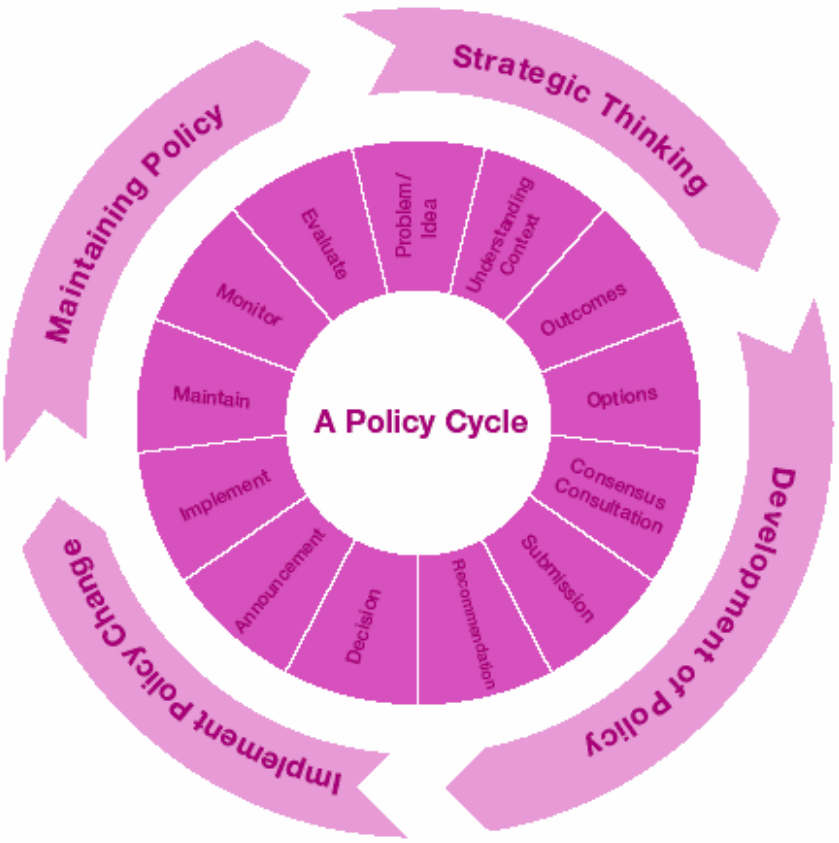
Workbook:	Key Areas Addressed:
1. Justification and Set-Up	Establishing the Need for Policy Intervention Planning Your Approach and Engaging Stakeholders
2. Developing and Analysing the Evidence Base	Gathering the Evidence Analysing the Evidence Presenting the Analytical Report Agreeing the Aims and Objectives
3. Identifying and Appraising Policy Options	Identifying Policy Options Costs, Benefits and Risks Appraising the Options
4. A Practical Guide to Impact Assessments	Defining the Aims Screening the Policy Assessing the Impacts Consultation Prioritising the Impacts Agreeing Recommendations and Implementation Decision and Publication of Report on Results of Impact Assessments Monitoring and Evaluation
5. From Consultation to Announcement	Formal Consultation Exercise The Submission

Announcing the Decision

Each workbook seeks to provide practical guidance and draws on existing guidance material and best practice, in particular *A Practical Guide to Policy Making in Northern Ireland*. The workbooks are intended as an introduction and a reference point for more detailed guidance. They are structured around the key stages of the policy process to enable policy makers to dip into the guidance as appropriate.

In using the workbooks it is important to acknowledge that the policy process is cyclical and continuous as demonstrated in Figure 1 below. Policy makers rarely if ever start with a clean sheet and as we work though the process it is often necessary to consider the other stages. Therefore, it is advisable that before using the workbooks you familiarise yourself with the contents and the key messages of the Practical Guide.

Figure 1: The Policy Cycle



What is Policy Making?

Policy making is the process by which the administration translates its vision into actions to achieve desired outcomes. Good policy making is therefore essential if government is to achieve its aims and deliver real change and benefits.

There is no single uniform approach to policy making which can be applied to all areas and all departments. The range of factors and the environment within which policy makers operate can vary considerably. The policy maker may be addressing a regional, local or even international issue. They may need to consider any number of social, economic or environmental factors. There may also be considerable variation in the resource consequences of the policy and the number of groups or individuals which the policy may impact upon. However, there are a number of broad steps or stages which can be applied to most policy areas and these are outlined in this series of workbooks. The key is to tailor the policy process to needs.

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5.4 ANNOUNCING THE DECISION

5.1 Overview

In Workbook One we looked at the importance of consultation and the need to develop a consultation plan at the outset of the policy process. It highlighted that consultation should be a continuous process that needs to be started early in the policy.

This section builds on this and deals specifically with the formal consultation period which often precedes a final decision and should involve the issue of a written consultation document. In particular it looks at planning the formal consultation, provides a best practice template for a consultation document developed from the Cabinet Office guidance and outlines the process of analysing responses, taking account of best practice guidance from Northern Ireland and beyond.

The Equality Commission for Northern Ireland has set out seven guiding principles for consultation. These are set out in Appendix One.

The formal consultation should include a written consultation document; however, it should not be restricted to a mass mailing paper based consultation. The formal consultation exercise should include alternative approaches to consultation such as those outlined in Workbook One. It is useful to consider again at this stage the needs of those with whom you wish to consult and the objective of the consultation exercise. This can help identify other approaches, such as public meetings and face to face meetings with key groups, which you may wish to undertake alongside the issue of the consultation document.

5.2 Formal Consultation Exercise

When is Formal Consultation Required?

A formal consultation exercise is required:

- On matters to which the statutory duties (equality) are likely to be relevant;
- On equality schemes;
- On the impact of policies.

Formal consultation should be undertaken at least once during the development of the policy. However, formal consultation is also required with regard to proposals for legislation, even where consultation has previously been undertaken on the associated policy area.

Minimum Consultation Period

The recommended period for a formal public consultation exercise is 12 weeks[1]. However, where re-consultation takes place on the basis of amendments made in light of earlier consultation, a shorter period may be appropriate.

Where a consultation takes place over a holiday period or lasts less than 12 weeks, extra effort should be made to ensure that the consultation is still effective, in that all persons likely to be affected by or with an interest in the policy should have the opportunity to engage with the public authority. This may require additional promotion of the consultation to raise awareness among stakeholders, utilisation of additional methods to consult and consideration of requests to extend the consultation period.

[1] OFMDFM (2003), *A Practical Guide to Policy Making in Northern Ireland*, UK: OFMDFM, page 45.

The Consultation Document

The consultation document should be as simple and concise as possible. It should include a summary, in two pages at most, of the main issues/questions it seeks views on. Documents should set out the main information and competing arguments relevant to a decision, or say where they can be found.

The document should be set out in plain language, as free as possible of jargon (visit the Cabinet Office's plain written language guidance for more information). Technical detail may be unavoidable, indeed central to the issues; but documents should be as widely understandable as possible.

Paragraphs in a consultation document should be identified by numbers or letters (in preference to bullets, which are less easy to refer to in responses). Pages should be numbered.

It should make it as easy as possible for readers to respond, make contact or complain. Details (address, phone, e-mail, text phone and fax) should be given of a contact who can respond to consultees' questions. Similar details should be given of someone who will pursue complaints or comments about the consultation process. This should be a person outside the team responsible for the document. Details of how responses will be handled should be given, for example, we will acknowledge receipt of your response, but will not be able to reply to all the points you raise.

Template for a Written Consultation Document

The following template is a best practice example of a written consultation document:

1. Foreword/Introduction
2. Executive Summary
3. How to Respond
4. Chapters
5. Impact Assessments
6. Annexes

1. Foreword/Introduction

Many consultation documents carry a foreword from the relevant Government Minister. This would be particularly appropriate for major or high profile policy proposals. A ministerial foreword will outline the aims of the consultation and may add weight to the process.

2. Executive Summary

Provide an executive summary to the written consultation document that covers the main points of the document, preferably no longer than two pages. Even if the document is technical, ensure that the executive summary is accessible to all. Having read the executive summary, consultees should be in a position to decide whether the consultation is relevant to them, and whether they need to read further.

The Executive Summary should:

- Be as succinct as possible (no longer than two pages).
- Set out the aims and objectives of the consultation.

- Provide a summary of the issues and options being consulted on so that respondents can quickly decide whether or not the rest of the document is relevant to them.
- Make clear the period for which the consultation is open.
- If the consultation is running for less than 12 weeks, state clearly the reasons for this and emphasise the measures that have been taken to ensure that the consultation is as effective as possible.
- Ask respondents to also look at your attached impact assessment and to comment.

It is also useful to include a very brief overview of each chapter of the document, or each option under discussion. This will enable those respondents who have little time to quickly decide which sections of the document they should focus on most closely.

3. How to Respond

This section should include:

- A summary of the questions on which you want respondents to comment.
- The closing date of the consultation.
- The name, postal address, email address, telephone and fax numbers of the person to whom responses should be sent.
- A brief outline of other consultation exercises running alongside the written consultation and details of how to get involved in these.
- Information about how the responses will be used.
- A standard disclaimer on Freedom of Information and confidentiality.

The consultation document should state the date when, and the web address where, responses will be published, if applicable and/or where the summary of responses will be published. As far as possible this should be within three

months of the closing date of the consultation.

It should be made clear that responses may be made public unless confidentiality is specifically asked for. With some subjects – such as where the responses may concern individuals' private lives, or matters of commercial confidentiality, this may need to be flagged up especially prominently, so that no-one inadvertently fails to register a wish for confidentiality. In some cases, confidentiality cannot be guaranteed, for example, where a response includes evidence of serious crime: this may also need to be brought out. In addition you will wish to highlight to potential respondents that under Freedom of Information, public bodies cannot guarantee confidentiality.

4. Chapters

Each chapter should give information on a discrete issue relevant to the consultation, or one of the proposed policy options. Chapters should be comprehensive, but as concise as possible. Ensure that you use plain language throughout and explain fully any unavoidable abbreviations, acronyms or technical language.

It is useful to summarise the information contained in the chapter in a very brief introductory paragraph – draw attention to this by highlighting the text in bold or a different colour. Similarly, make sure that each chapter has a clear conclusion.

If your chapter outlines a key policy option, you should:

- outline the current situation
- set out the proposed option clearly and comprehensively
- briefly outline the potential costs and benefits of implementing the policy option. Remember to include a 'do nothing' option here: what would happen if you made no policy changes at all and things remained as they were?

In each chapter, reiterate the questions from your summary of questions which are pertinent to that particular topic/policy option. Highlight these in a shaded box or a different colour so that they stand out clearly.

Include relevant case studies or practical examples wherever possible in each chapter. This breaks up what might otherwise be dry, sometimes theoretical or technical, text and allows the reader to identify with the issues under discussion more easily. Again, it is useful to distinguish these from the main body of the text by highlighting them in a different colour or a shaded box.

5. Impact Assessments

The outcome of any impact assessment or screening exercises must also be included, inviting comments from consultees. Where the impact assessments are made available separately, an overview of the findings should also be included in the consultation document.

6. Annexes

The annexes can be used to accommodate any additional information not included in the main body of the consultation document. It is often useful to include more complex data or tables in an annex rather than the main body of the document.

In addition, the following items should be included somewhere in your consultation document and it is usually best to attach these as annexes at the end.

- **Membership of the Steering Group**
  Where a steering group has been established to take forward the policy area, it is useful to provide the names and organisational details of those involved.

- **List of Stakeholders Consulted**

  You should attach a list of all stakeholder organisations you have consulted informally, as well as all those who have received copies of the consultation document. You should also invite respondents to contact you with the names of any other stakeholder groups not on the list who they feel might be able to contribute. This will help to ensure that all those who wish to are given ample opportunity to comment on your consultation, making it as broad and diverse as possible.

- **Relevant Current Government Legislation**

  If your consultation and policy proposal will directly affect, or be affected by, existing Government legislation, it may be useful to include a summary of this. Include a web link or contact name / address for respondents who may require further information on this, or who would wish to access the legislation in full.

Distribution of the Consultation Document

On issuing the consultation document, departments must also take steps to raise awareness among the public and relevant groups about the consultation exercise. This may include press releases, prominent advertisements in the general press and specialist press of affected groups, the Internet and direct invitations to key groups to respond. Once again, it is important to consider the needs of potential consultees.

Consultation must be both meaningful and inclusive, in that all persons likely to be affected by or with an interest in the policy should have the opportunity to engage with the public authority. Therefore, relevant interest groups as well as the Equality Commission, other public bodies, political representatives, relevant Assembly/Parliamentary Committees, voluntary and community sector, trade unions and other groups with a legitimate interest in the area should as a minimum be made aware of the consultation exercise.

Feedback from consultees indicates that mass mailing of a full consultation document to all groups on the public authority's list of consultees is not particularly effective. Recognising this, it is recommended that initially departments should circulate an executive summary, so that consultees can decide whether or not they would like to obtain the full document or respond to the consultation. Where appropriate, this can be in the form of a letter from the department and should include the following points:

- The proposal;
- The timeframe for consultation;
- The aim of the policy;
- The key issues; and
- A contact point for further information.

Analysing the Responses

Responses to any consultation exercise should be carefully and objectively analyzed, and the results made widely available, with an account of the views expressed, the policy makers response to those views and reasons for decisions finally taken. Analyzing responses is not a science and the precise method of analysis will depend on the public involvement technique used. Policy makers also need to be mindful that analysis can often be complex and time consuming. Sufficient time, therefore, needs to be built into the policy timetable to facilitate this process.

It is important to bear in mind that analyzing responses is never simply a matter of counting votes. Single-issue groups should not be allowed to monopolize the debate. However, due regard should be given to the views of representative bodies, such as business associations, trade unions, voluntary and community sector, consumer groups, and other organisations representing Section 75 groups especially affected. Eventually it is for Ministers to assess the argument and evidence and reach decisions in the public interest.

However, the following broad steps can be applied to most exercises:

Step 1: All responses should be acknowledged on receipt where possible. Ensure that accurate and complete records are kept of all responses received, whether through a formal written consultation or more interactive dialogues. It is useful to keep a copy of all responses, both formal and informal in a central file, not only to ensure that everyone's view is fairly considered, but also to help address any allegation of privileged access.

Step 2: Try to sort the responses into particular types, for example, the views of business groups in one, employees' representative groups in another, individual

views in a further category. This will help you to identify variations in perspectives on particular issues.

Step 3: Develop a 'framework grid' for analysis by identifying the key policy issues, themes and proposals, and then summarize the primary viewpoints on each aspect.

Step 4: Examine the primary viewpoints and consider the implications for the policy. In particular, responses should be analyzed for:

- Possible new approaches to the issue / question consulted on;
- Further evidence of the impact of proposals; and
- Levels of support among particular groups.

Step 5: Draw together the three facets of the consultation analysis (i.e. the different strands of viewpoints; an assessment of the implications for the policy; and an outline draft government response) into a single 'outcome' paper.

Step 6: Deliberate with relevant stakeholders in government to develop a clear position on the ramifications of the consultation analysis as set out in the outcome paper.

If significant new options emerge from consultation, it may be right to consult again on them, though a shorter consultation period may be justified.

Step 7: Decisions in the light of consultation should be made public promptly, with a summary of views expressed (subject to respondents' requests for confidentiality), and

clear reasons for rejecting options that were not adopted. As far as reasonably practicable, this material should be accessible to all who responded, including on a departmental website. Respondents who ask why individual proposals have been rejected should receive an explanation.

Individual responses should also generally be made available to anyone else who asks for them. Failure to make material available may be incompatible with Open Government or Freedom of Information provisions. It is legitimate, in accordance with those provisions, to make a reasonable charge for copying and postage. However, where respondents have sought confidentiality, it should generally be respected. It may also be necessary to keep confidential those responses that may unfairly affect third parties' interests or privacy.

5.3 The Submission

Overview

Detailed guidance on handling of submissions will be available from each Private Office. Those guidelines usually detail the Minister's personal preference regarding, for example, font, layout, timings, and distribution lists. This document does not seek to replicate that guidance, as it will vary according to each Minister's preference. However, there are some general key points to take into consideration when preparing a submission to the Minister. In addition, an example of a Ministerial submission is available on page 20 below.

The Submission

You will have determined at the initiation stage who the key decision-maker is, usually the Minister. The next stage is to present to the Minister the detailed options and recommendations.

Having analysed your options and consulted widely with stakeholders, you will make a recommendation to the Minister and they will agree the way forward for the policy. This will take the format of a formal submission to the lead Minister. (It is assumed that you will have had ongoing meetings/correspondence with the Minister throughout the policy process, so this will take the form of a signing-off of the agreed option and arrangements for presentation and delivery.)

Special Advisers

In certain circumstances, advice should be included from the Special Adviser on submissions going to Ministers. Policy makers are advised to check with their Special Advisers' Office for up-to-date guidance.

Example of a Ministerial Submission

FROM: **Ann Other**

Date: **1 February 2007**

TO: **Colleagues**

Copy Distribution List Below

Issue:	**To Notify Colleagues of the Appropriate Style of Submission**
Timescale:	**Immediate**
Presentational Issues:	**Likely interest from Media, Political Parties, Interest Groups**
FOI Implications:	**Most Submissions are likely to be disclosable – if in doubt speak to your Local Information Manager**
View of Special Adviser:	**Must be here before in *certain* circumstances before going to the Minister – please seek advice from your Special Advisers' Office**
Financial Implications:	**Outline the financial implications of the issue under consideration**
Legislation Implications:	**Include relevant information about the legislative implications in respect of any proposal.**
Recommendation:	**That this form of submission is always used in future**

Background

5.4 Announcing the Decision

Detailed guidance on handling announcements/policy statements will be available from the individual Private Offices. Each Private Office will issue guidelines on the Minister's preferences regarding the preparation and format of announcements. The Departmental Press Office should also be contacted regarding requirements and advice. This document does not seek to replicate such guidance. However, there are some general key points to take into consideration when preparing an announcement.

Communication Strategy

Communication of government policy should be an integral part of policy development. To ensure that your policy will really benefit those it is designed for, and can be successfully implemented, you should ensure that communication is part of all stages of the development of the policy. It is important to consider both internal and external communication strategies.

A communication strategy should set out the team's approach to handling both stakeholders and the media at all stages of the strategy development process. It should include the formal launch, the consultation process, the presentation of analysis to stakeholders, the publication of the interim report, the communication of the conclusions and the publication of the final report. The plan should identify activities, responsibilities and timescales. After each phase of the project, communications should be evaluated to monitor success and identify any learning points.

It is therefore important to discuss your policy with the Executive Information Service (EIS) from an early stage in the policy process. EIS provides the full range of news and public relations services to Ministers and their departments. There is a central unit and staff are also out posted to provide the service in departments. The Press

Office within EIS will arrange press conferences; issue news releases and articles; and provide advice on media handling.

The following points should assist planning in this area.
Communication should:

- Be planned from the start of the policy process and tackled as an issue throughout;
- Be based on a sound awareness of the political and wider context within which the policy is being developed;
- Be focused on what is likely to be of greatest public interest, highlighting the policy proposal and resulting likely criticisms, and include an overview of the consultation responses, outlining how these have been taken into account;
- Target relevant audiences and make use of a range of media and formats in order to reach those audiences; and
- Involve all those who will have a part to play in presenting policy – Ministers, policy-makers, press officers and service deliverers/implementers.

The Announcement

For significant policy decisions, Ministers will want to ensure that the Assembly/Parliament is informed (usually before the media). The Minister may also wish to ensure that relevant Assembly or Parliamentary Committees are informed of the proposed announcement in advance. You will want to get a steer on how the Minister would like to present this to Parliament.

The team should always work with and through the Press Office rather than dealing directly with the media. When communicating with the media it is important to remember:

- Keep it simple and ensure that the story is clear.

- Be as open as possible, secrecy adds interest and value to a story.
- Be fully briefed and know the facts.
- Avoid the void: if you don't provide some information, someone else will.
- Create a Question and Answer brief to cover areas that the media will be interested in.
- Don't be tempted just to answer the easy questions or cover the areas they '*should* be interested in'. Test the answers to ensure that they are robust.
- Consider whether a press briefing or conference is required and whether there are any key stakeholders that the media will automatically contact. If so consider briefing them in advance.

The Prime Minister's Strategy Unit has produced a Strategy Survival Guide which highlights some key points to note in relation to the launch strategy, including:

- Detailed briefing notes are vital for any launch. The Question and Answer brief must be exhaustive and must address sensitive issues.
- If possible, the launch strategy should include a large number of briefing sessions to cover stakeholders and the media. This is extremely time-consuming but effective.
- Briefing small groups of the media helps to improve their understanding of the report – especially for non-specialist media – and results in measured and accurate reporting of the key recommendations. It also allows specialist media more opportunity to delve into their areas of interest.
- Do not forget to plan for the dissemination stage post-launch. Activity should not stop the day after the launch.

APPENDIX ONE

Guide to the Statutory Duties at Section 4 paragraph 2(c)

The Equality Commission for Northern Ireland has set out seven guiding principles for consultation. These require that:

- consultation with groups and individuals should begin as early as possible;

- consideration must be given to which method of consultation is most appropriate in the circumstances. Consideration should be given as to whether face-to-face meetings, small-group meetings, focus groups, discussion papers with the opportunity to comment in writing, questionnaires, or internet discussions are best;

- engagement with affected groups or umbrella groups to identify how best to consult or engage with stakeholders is recommended;

- the accessibility of the language and the format of information must be considered to ensure that there are no barriers to the consultation process. Information should be available on request in accessible formats for example Braille, disk, and audiocassette and in minority languages to meet the needs of those who are not fluent in English. Public authorities must ensure that systems are in place to ensure that information is available in such accessible formats in a timely fashion. In addition, specific consideration should be given to how to best communicate information to young people and those with learning disabilities;

- specific training should be considered to ensure that those facilitating consultations have the necessary skills to communicate effectively with consultees;

- adequate time should be allowed for groups to consult amongst themselves as part of the process of forming a view. The Commission recommends a period of at least two months for consultation exercises;

- appropriate measures should be taken to ensure full participation in any meetings that are held. Different groups have different needs and may have different customs. Public authorities will need to consider the time of day, the appropriateness of the venue, in particular whether it can be accessed by those with disabilities, how the meeting is to be run, the use of appropriate language, whether a signer is necessary, and the provision of childcare. Public authorities should recognise and in good faith meet access related costs; and

- Information should be made available to ensure meaningful consultation. This should include relevant quantitative and qualitative data and other documentation such as consultants' reports.