

Executive Summary

This report presents findings from a systematic review of evaluations of economic area based initiatives. These are programmes that aim to improve economic growth in a specific, well-defined, local area or set of areas. This review is the tenth produced by the What Works Centre for Local Economic Growth.

The review considered more than **2,100** policy evaluations and evidence reviews from the UK and other OECD countries. It found 58 impact evaluations that met the Centre's minimum standards.

Approach

The Centre seeks to establish causal impact – an estimate of the difference that can be expected between the outcome for areas that benefit from support and the average outcome they would have experienced without support (see Figure 1). That is, shortlisted studies use evaluation methods that take deadweight into account and focus on additional impacts, if any. Our methodology for producing our reviews is outlined in Figure 2.

Area based initiatives (ABIs) encompass a broad range of interventions at a variety of scales. We looked at three distinct types of initiatives:

- EU Structural Funds (such as the European Social Fund and the European Regional Development Fund);
 - Enterprise and Empowerment Zones;
 - Other area based business support (such as Regional Selective Assistance).
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Figure 1: Evaluating impact

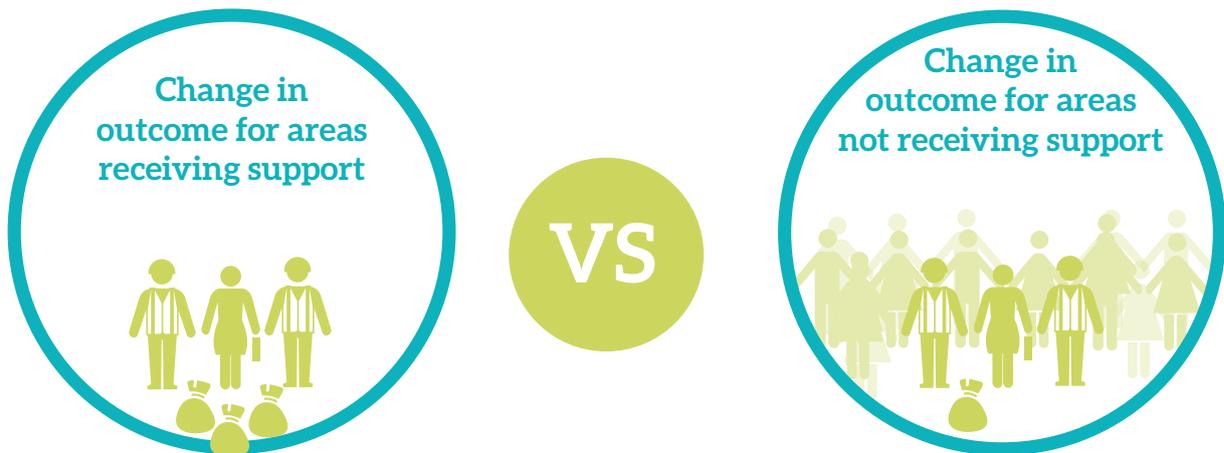
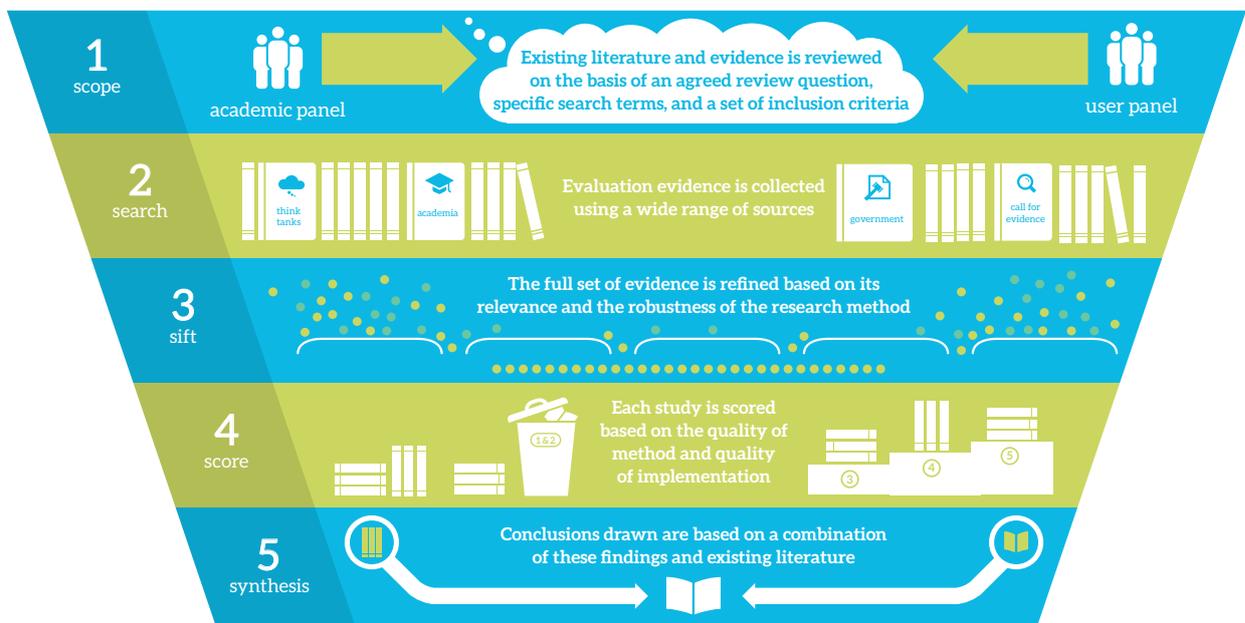


Figure 2: Methodology



Summary of findings: EU programmes

What the evidence shows

- EU support has a positive impact on regional GDP per capita in a little under half of the evaluations that consider GDP effects.
- Half of the studies which look at employment effects show a positive effect of EU support on employment.
- The evidence on a range of other outcomes is mixed (with only one study per outcome).
- Positive impact is bigger in relatively more developed regions.
- Consistent with this, two out of three studies that consider the 'dose' (e.g. expenditure per capita) suggest an optimum 'level' of treatment.

Where there is a lack of evidence

- We have no evidence on the extent to which the different components of spend change the effectiveness of support.

Lessons

- EU studies demonstrate the limits to evaluating multi-strand ABIs at a large regional scale.
- It is essentially impossible to say anything on the cost-effectiveness of different types of expenditure from overall evaluations. Policymakers would be better off designing specific evaluations of each strand of expenditure, rather than attempting only a single overarching evaluation.

Summary of findings: EZs

What the evidence shows

- The preponderance of the evidence relates to US Enterprise Zones, US Empowerment Zones, and French Enterprise Zones.
- A little over half the reviews find positive impacts on zone employment. Evidence of employment effects is weakest for US Enterprise Zones and better for US Empowerment Zones.
- Most of the reviews that consider unemployment find positive effects.
- Half of the studies that consider the impact on poverty report positive effects.
- Half of the evaluations that consider wages report positive effects.
- Most of the reviews that consider the number of businesses find positive effects.

Where there is a lack of evidence

- A number of studies suggest that positive effects for Zones may be driven by displacement from nearby areas. However, we have little evidence on whether overall effects at the wider area level are positive, or whether displacement is the main effect of EZ-type schemes.
- Very few studies look at differences in programme characteristics. As a result, we do not know how characteristics of programmes (e.g. selection, local employment conditions) change effectiveness, including the extent to which they may reduce displacement.
- One study suggests that programmes with fewer target areas are more effective in attracting new jobs and business activity; and that employment growth in existing target businesses is promoted only if programme incentives are tied to hiring requirements. It would be good to know if these findings generalise.

Lessons

- Decision makers need to take concerns over displacement seriously. If much of the growth within the zone comes at the expense of nearby local areas, then this will mean less (or even no) overall growth at the wider area level.
- Even if displacement effects are strong, EZs may play a role in helping concentrate local employment from a number of dispersed sites.

Summary of findings: other ABIs

What the evidence shows

- More than half of the studies that consider employment report positive effect.
- Only three studies look at unemployment, with all three reporting positive effects.

Where there is a lack of evidence

- We have very few estimates for other outcomes of interest.
- There is some evidence that targeting of schemes to firms that provide traded goods and services could make a difference in determining the extent of displacement, but this finding is based on only two evaluations of different schemes.

How to use these reviews

In the UK, the devolution of business rates offers an opportunity for local authorities to make their own decisions about using EZ-type programmes to address local economic conditions. However, the relative power of this incentive (which represent a small proportion of business operating costs) should not be overestimated.

It is also clear that decision makers need to take concerns over displacement seriously. If much of the growth within the zone comes at the expense of nearby local areas (e.g. within the same LEP or city-region), then this will mean less (or even no) overall growth at the wider area level. Even then, EZs and other ABIs may play a role in helping concentrating local employment from a number of dispersed sites. There has been some suggestion that this may lead to additional productivity effects via agglomeration benefits. Given existing estimates of the effect of increased concentration on productivity, and the extent of clustering involved, these effects are unlikely to be large in practice. Of more importance, are the implications for public service provision of more concentrated employment. For example, concentrating employment on a smaller number of sites, may help reduce costs of infrastructure provision such as transport, broadband and other services to business.

Given the small number of studies for other schemes, it is hard to draw any general conclusions in terms of policy effectiveness that might extend to EZ-type schemes. It is intriguing that a couple of UK studies suggest that the extent of displacement is much greater when schemes are non-selective and target non-traded services (LEGI) than when they are selective and target firms that serve non-local markets (RSA). This is certainly in line with a large body of theoretical and wider empirical literature, and taken together, this wider literature and the evaluation evidence urge some caution in the area specific targeting of firms that provide non-traded goods and services.

This review of ABIs reinforces two other overarching issues for policymakers in the UK:

- Objectives of any area based policy must be very clearly defined, and the more specifically they can be targeted in terms of outcomes the better. The likely impacts of incentives across the targeted area, on adjacent areas, and over time, must be considered in the light of local conditions and objectives.
- We must make progress in the evaluation of the UK-style EZs if we are to say with confidence that they are providing good value for money.

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