For a number of decades, a significant amount of resources have been devoted to supporting Irish industrial policy interventions. There has, however, been a distinct lack of evaluation of such interventions. Evaluation should consider what would have happened in the absence of assistance. To produce an assessment of this counterfactual involves considering the concepts of deadweight and displacement. Jointly these concepts facilitate an assessment of the additional impact of financial assistance provided by the public sector. Despite the widespread recognition amongst academics and policymakers alike regarding the need to evaluate, the issue of how to evaluate (methodology) continues to be a key challenge. The prime focus of the current paper is to report the findings from the Irish experience of the evaluation of industrial policy interventions. In so doing, the paper reflects and considers some of the key methodological issues in this field of study. The paper highlights that, regardless of ‘what’ is being evaluated, many of the key concepts and frameworks discussed in the context of industrial policy evaluation in this paper are highly transferable to varying contexts.

1. INTRODUCTION

Evaluating industrial policy interventions has attracted increasing policy and academic attention in recent years. Despite the widespread consensus regarding the need for evaluation, the issue of how to evaluate and the associated methodological considerations continues to be an issue of considerable debate. In the Irish context, the increased impetus to evaluate industrial policy interventions would appear to be largely driven by the European Union (EU) who have placed emphasis on assessing the impact of significant EU transfers (evaluation) and on ensuring that appropriate financial management systems have been implemented (accountability).

For decades, significant resources have been allocated by the Irish government towards various types and measures of industrial policy interventions. Just under €3.3 billion was provided in direct supports by Irish development agencies in the period 1991 to 2002. Various changes in the focus of Irish industrial policy have taken

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2 Thanks to Gillian Dooley for comments. The usual disclaimers apply.
3 Industrial Development Authority (IDA); Enterprise Ireland (EI); Shannon Development and Udarás na Gaeltachta.
4 The source of this information is from Forfás Business information system (various years).
place over the years, in many cases without the insights of evaluation. For example, there has been a shift towards intervention through equity investments from 6.5 per cent of all incentive payments to 25.8 per cent in the decade between 1991 and 2001 followed by a slight decrease to 19.6 per cent in 2002\(^5\). This shift has taken place without reference to many of the factors at work with respect to financial assistance interventions (e.g. exploring the counterfactual (deadweight); displacement and other key components of overall additionality).

One of the key studies discussed in this paper is that of Lenihan et al., (2003). The Lenihan et al., (2003) study is as a result of commissioned work by a public agency (Enterprise Ireland-EI\(^6\)). It highlights the very fact that, by commissioning the academic community to develop and engage in debate regarding the exploration of appropriate methodologies to evaluate industrial policy interventions, a public agency such as EI is not only an investor but also a consumer of research.

An important question in any evaluation of the effectiveness of industrial development policy is what would have happened in the absence of assistance. To produce an assessment of the counter-factual, involves considering two key components of additionality, they are, deadweight and displacement. Growth (e.g. increased numbers employed) among the recipients of government financial assistance which can be judged to have occurred anyway, in the absence of any assistance, is termed deadweight. Even if one concludes that zero deadweight exists, the possibility still remains that assistance provided to a particular firm may displace employment in other firms within the economy. The definition adopted regarding economy is very important and the researcher needs to decide from the outset the spatial dimension of the displacement concept (i.e. whether displacement is being measured at a local, regional, national or international level). Jointly, deadweight and displacement can allow some assessment of the additional impact of financial assistance provided by public development agencies.

The focus of this paper is to report the key findings from the Irish experience of the evaluation of industrial policy interventions. The starting premise is that government intervention, in whatever form, should bring about a level of additionality in excess of what would have happened anyway. In so doing, the paper draws on two studies, that evaluated the impact of financial assistance to firms in the case of two Irish development agencies (i.e. Shannon Development\(^7\) and Enterprise Ireland). The objective of the paper is not merely to report the findings from these studies, but to reflect on the key methodological challenges that face researchers engaged in constructing counterfactuals to evaluate policy interventions. The paper will also address the directions that should be taken for evaluation research. Storey (2000) in his much publicized “Six Steps to Heaven” paper argued that academics in general have been rather slow to address core methodological issues in evaluation research and have relied too heavily on mere policy monitoring techniques. The current paper aims to encourage more debate by academics and policymakers on this important area.

\(^5\) The source of this information is from Forfás Business information system (various years).
\(^6\) Enterprise Ireland is Ireland’s enterprise development agency. It works with Irish industry and its partners on behalf of the Government of Ireland.
\(^7\) Shannon Development is Ireland’s only dedicated regional development agency. It assumes the role of Enterprise Ireland in the Shannon region.
The remainder of the paper is organised as follows: The next section briefly defines the concepts of deadweight and displacement. It also examines evidence of deadweight and displacement as highlighted by research in the Irish context. The section draws on the work of Lenihan (1999; 2001); Lenihan et al., (2003) and Lenihan (2004) to highlight the importance of incorporating these concepts into evaluation studies and to highlight the key methodological decisions facing researchers in this field of study. Section 3 provides a discussion of the key challenges and opportunities facing the Irish evaluation community and, in so doing, looks to best-practice international studies. The paper concludes by emphasising that irrespective of ‘what’ is being evaluated, many of the concepts and methodological approaches (the ‘how’ to evaluate) are transferable to varying contexts and policy instruments.

2. DEFINITION AND EVIDENCE OF DEADWEIGHT AND DISPLACEMENT.

Deadweight as defined in this paper refers to the degree to which projects would have gone ahead anyway without financial assistance from a development agency. ‘Degrees’ of deadweight are measured by time, location and scale (or a combination of these). Minimising deadweight should be one of the key objectives of all government interventions with the notion being that the government should be seen as a lender of last resort. Even if ‘zero deadweight’ exists there still remains the possibility that assistance allocated to one firm displaces jobs elsewhere in the economy (however defined e.g. local, regional or national economy). Most commentators would concur with the definitions as outlined above. The focus on degrees or levels of deadweight is particularly insightful given that the vast amount of studies merely distinguish between ‘full’ or ‘zero’ deadweight whereas in reality deadweight may vary along a continuum with various levels of ‘partial’ deadweight lying along this continuum as measured by time, scale, location etc (Lenihan 1999; 2001). However, McEldowney (1997) argued that although the concepts have much validity, it is in their application and treatment that problems and challenges may occur. The remainder of this section draws on evidence from the Lenihan (1999; 2001; 2004) and Lenihan et al., (2003) studies.

2.1 Evaluating the Effects of Shannon Development Industrial Support

Lenihan (1999) examined grant assistance awarded to indigenous firms by Shannon Development in 1995. Two components of additionality-deadweight and displacement were used to aid the evaluation process. The prime methodological approach adopted was that of the self-assessment approach, involving in-depth face-to-face interviews with the managing directors of firms that received grants from the regional development agency in 1995. The interview technique was thus employed in order to explore the ‘counter-factual’ scenario. As frequently outlined (King 1990; 8For an in-depth discussion of the concepts as outlined above, the reader should refer to Lenihan (1999; 2001). 9The main methodological options available to researchers setting out to build the necessary counterfactuals to estimate the additionality of government policy are: Shift-share analysis; control groups (some of which incorporate selection and assistance effects); cost-benefit analysis; and a ‘self assessment’ approach using survey techniques.
Lenihan 1999; 2001; Lenihan et al., 2003; PA Cambridge Economic Consultants Ltd 1993; Swales 1997 amongst others) there are intrinsic difficulties associated with this technique when used in this regard which is commonly referred to as ‘respondents effect’, that is, the fact that respondents (firms) may purposely exaggerate (in either an upwards or downwards direction) the impact of financial assistance from an external influence, such as a development agency. More precisely, respondents may exaggerate the impact of assistance for fear that they may reduce their chances of receiving repeat assistance (if they were not deemed by the development agency as really meriting assistance the first time round). On the other hand, other recipients may be likely to play down the impact of assistance attributing success to themselves and their own personal characteristics (such as own motivation; education; business idea etc). To ensure that respondents offered a ‘consistent counterfactual scenario’ and adapted as easily as possible to the hypothetical line of questioning regarding assistance received from Shannon Development, several measures were undertaken in the study (for a discussion of these measures refer to Lenihan 1999 and Lenihan et al., 2003). Data emanating from the interviews were then used to obtain estimates of deadweight and displacement in the Shannon region of Ireland.

Lenihan (1999) defined deadweight as the degree to which projects would have gone ahead anyway without assistance from Shannon Development in 1995. This definition of deadweight takes account of the various degrees or levels of deadweight as measured by time, location and scale. The issue here is that of which projects would have gone ahead but in a different form, for example scaled down version or in a different location or at a later date, without the assistance. More precisely, respondents were asked:

“In the absence of grant assistance from Shannon Development in 1995 would you have (choose one option only)?

(a) Gone ahead as now unchanged, that is, same scale, time and location.
(b) Gone ahead at a different location but otherwise unchanged.
(c) Gone ahead at a later date but otherwise unchanged
   (that is, delayed the project).
(d) Gone ahead on a reduced scale but otherwise unchanged.
(e) Abandoned the project”.

When respondents said that in the absence of the grant their projects would have gone ahead elsewhere, on a smaller scale, or at a later date, they were asked for precise details. These questions facilitated estimates of ‘partial’ versus ‘pure’ degrees of deadweight and helped to provide a picture of what was most likely to have happened if the award had not been made” (p.310)

One of the main contributions of the Lenihan (1999) paper is the fact that the methodological framework adopted does not merely reduce the issue of deadweight to one or two simple counterfactual-type questions (as is the case in a number of studies including Segal Quince Wicksteed, 1989; King, 1990; Sheehan, 1993 amongst others). The norm (when deadweight is examined in evaluation studies) is that ‘such questions ask respondents to indicate whether in the absence of grant assistance they would have undertaken the particular investment project under investigation’ (McEldowney, 1997, p.184). It is our view that McEldowney (1997) was correct when he argued that ‘……this type of approach is an oversimplistic one to adopt,
especially when one considers the complexity of some decisions that have to be taken by organisations' (p. 184). For this reason, the Lenihan (1999) study did not merely pose the question of 'what would have happened in the absence of grant assistance' but followed it up with more detailed direct questions which relate to timing, scale and location of the project. In addition, the approach adopted (Lenihan 1999) also incorporated other 'indicators' of deadweight questions into the analysis as will be discussed later in this section.

The key contribution of the innovative approach first developed by Lenihan (1999) is that the questioning employed during face-to-face interviews helped to 'unpack' estimates of 'partial' versus 'pure' (full) degrees of deadweight and helped to provide a picture of what was most likely to have happened if the award had not been made. Option (a) as outlined above implies 'pure' deadweight (i.e., the project would have gone ahead anyway completely unchanged in the absence of assistance). Options (b) (c) and (d) all imply varying degrees of ‘partial’ deadweight. Finally, option (e) implies ‘zero’ deadweight (i.e., project would have been completely abandoned in the absence of assistance). These ‘partial’ deadweight assumptions are subsequently quantifiably incorporated into the analysis. As a follow-up question, respondents were also probed regarding access to and anticipated success with respect to acquiring alternative sources of funding. To minimise deadweight firms should be able to demonstrate to the development agency that all other sources of finance have been exhausted (see Hart and Scott, 1994 and Heijs, 2003). The adoption of direct and indirect questions to deadweight is considered imperative. This is aptly summarised by Heijs (2003) when he argued that:

"Some of the firms are prone to overestimate the importance of the public support measurement, especially in the case of direct questions. The use of several questions to analyse the freerider behaviour is based not only on their complementarity but could also serve as a control system for the reliability and the coherence of the answers" (p. 451).

In summary, the Lenihan (1999) study derived the following deadweight estimates: 53 per cent of firms reported ‘pure’ deadweight, with only 10.4 per cent reporting ‘zero’ deadweight. When the partial deadweight assumptions and categories are accounted for, the overall deadweight estimate rises to 78.4 per cent, that is, 78.4 per cent of the additional jobs would have occurred anyway. Thus, additionality net of deadweight is 21.6 per cent of the jobs created. The importance of incorporating ‘partial’ deadweight is actually quantifiable when one compares the ‘pure’ deadweight estimate of 53.2 per cent with that of 73.2 per cent when partial deadweight is taken into account. Any policy decisions based on the former are obviously less accurate than the latter. Interestingly, this high deadweight estimate is confirmed by the other indicators of deadweight employed in this study. For example, it is generally believed (see Sheehan, 1993) that if grants are an integral part of the firms investment appraisal, then this provides a good indicator that they are important to the firm. On the other hand, if they are not incorporated then it is likely that they had little

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10 The sensitivity of the deadweight estimates derived obviously depends on the methodology and associated definitions used.

11 Note by the term ‘freerider behaviour’ in the above quote, Heijs (2003) means deadweight.

12 Subsequent work carried out by Lenihan (2001) showed that regardless of firm ownership deadweight estimates were high (based on grants received by firms from Shannon Development in 1995). A deadweight estimate of 71.3 per cent was derived in the case of the foreign-owned firms in the sample.
influence on the investment decision. The incorporation of grants into financial appraisals thus provides another good indicator of deadweight. In this study, of the 68 firms who had undertaken a financial appraisal of their project, 57 per cent did not incorporate grants from Shannon Development which would suggest that deadweight is of this magnitude. As alluded to above, another good indicator of deadweight is to establish where the survey firms would have obtained the extra funds needed if no grant assistance was provided by Shannon Development. The issue here is whether they had access to alternative sources of funds (this approach was also adopted by Robinson and Wren (1987) and others). Of the 74 firms that responded to this question, 94.6 per cent said that they would have found alternative sources of funding in the absence of grant assistance from Shannon Development in 1995. When this is used as an indicator, deadweight appears to be even higher.

The second element in the calculation of additionality of Shannon Development assistance is displacement. It should be anticipated from the outset that estimating displacement is no easy task. As Jackson (1990) states “the tracing of displacement effects is methodologically very difficult whether the effects being studied are local or distant” (p. 52). To examine regional displacement was an obvious choice in the case of Shannon Development given that Shannon Development is a regional development agency. The approach adopted (Lenihan, 1999) was to establish the extent to which sales by Shannon Development assisted firms displace output from other local/regional firms rather than national firms or imports. The assumption here is that, where most competitors are known to be situated in the local or regional areas, there is a strong assumption that displacement will occur within the assisted area, that is, the Shannon region. However, where competitors are located abroad or in an area of Ireland outside of the Shannon region, there is a presumption of no displacement of assisted-area jobs. In the current study, displacement is estimated at 4.2 per cent. In other words 4.2 per cent of sales from Shannon Development assisted companies displace output and jobs from other Shannon region companies 13.

In summary, one can conclude that for the particular year in question, deadweight in the Shannon region was high. The estimate of displacement on the other hand was low. It would appear from this that Shannon Development was effective in diverting grant-aided activity away from already saturated sectors. One would also be justified in questioning whether such high deadweight and low displacement estimates are representative of Irish industrial policy interventions in general.

2.2 Additionality of Enterprise Ireland Financial Assistance

Lenihan et al., (2003) undertook a study using the same methodological framework 14 to estimate the impact of financial assistance to Irish firms from EI once again in terms of deadweight and displacement. The study developed an approach to estimate the net additionality of financial assistance from EI to indigenously-owned firms in Ireland for the period 2000 to 2002. In summary, the EI study estimated deadweight

13 The estimate of displacement for the foreign-owned firms in the sample was also low at 0.3 per cent.
14 There was a slight adjustment in the case of deadweight with respect to the partial categories. Also the Lenihan et al., (2003) study offers an alternative robust methodology when faced with the difficulty of using the standard methodology where there exists high employment decline in the assisted firms over the study period.
to be between 46.2 and 55.8 per cent which, although lower than that found for the Shannon Development study, is still high by international comparison as highlighted in Table 1. It should be noted that deadweight estimates derived (or assumed) in other Irish studies range from 45-80 per cent\textsuperscript{15}.

<p>| Table 1: Deadweight Estimates Derived in International Studies |</p>
<table>
<thead>
<tr>
<th>Authors (Year)</th>
<th>Evaluation of What (Focus of Study)</th>
<th>Where</th>
<th>Deadweight Estimate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Public Sector Management Research Unit (PSMRU) (1988)</td>
<td>Urban Development Grants (UDG) programme</td>
<td>UK</td>
<td>57%</td>
</tr>
<tr>
<td>PA Cambridge Economic Consultants (1993)</td>
<td>Regional Selection Assistance (RSA Scheme)</td>
<td>UK</td>
<td>21%</td>
</tr>
<tr>
<td>Public and Corporate Economic Consultants (PACEC) (1998)</td>
<td>Business Links</td>
<td>UK</td>
<td>38%</td>
</tr>
<tr>
<td>Hart and Scott (1994)</td>
<td>Local Economic Development Unit (LEDU) assistance policies to small firms in Northern Ireland (NI)</td>
<td>NI</td>
<td>8%-32%</td>
</tr>
<tr>
<td>Monk (1990)</td>
<td>Enterprise Board Investment</td>
<td>UK</td>
<td>46%</td>
</tr>
</tbody>
</table>

Estimates of displacement in the Enterprise Ireland study were estimated to be between 4.4 to 12.2 per cent which, although higher than the Shannon Development study, are still low by international comparison\textsuperscript{16}.

<p>| Table 2: Displacement Estimates Derived in International Studies |</p>
<table>
<thead>
<tr>
<th>Author (Year)</th>
<th>Evaluation of What (Focus of Study)</th>
<th>Where</th>
<th>Displacement Estimate</th>
</tr>
</thead>
<tbody>
<tr>
<td>King (1990)</td>
<td>Regional Selective Assistance (RSA) Scheme</td>
<td>UK</td>
<td>27%</td>
</tr>
<tr>
<td>Hart and Scott (1994)</td>
<td>Local Economic Development Unit (LEDU) assistance policies to small firms in Northern Ireland</td>
<td>NI</td>
<td>40%</td>
</tr>
<tr>
<td>Monk (1990)</td>
<td>Enterprise Board Investment</td>
<td>UK</td>
<td>10%</td>
</tr>
<tr>
<td>Tervo (1990)</td>
<td>Regional Development Grants</td>
<td>Finland</td>
<td>23%</td>
</tr>
<tr>
<td>Robinson et al (1987)</td>
<td>Regional Development Grants (RDG) Regional Selective Assistance (RSA)</td>
<td>UK</td>
<td>27%</td>
</tr>
<tr>
<td>Felsenstein and Fleisher (2002)</td>
<td>Public Assistance Program–small scale Entrepreneurship in peripheral areas.</td>
<td>Israel</td>
<td>64%</td>
</tr>
</tbody>
</table>

\textsuperscript{15} Refer to IEU (1999a; 1999b; 2000) and Honohan (1998).

\textsuperscript{16} A word of caution needs to be exercised when comparing estimates of deadweight and displacement across studies in that a variety of methodological approaches are adopted. Nevertheless, employing international studies as a benchmark is useful.
Other Irish studies during this time period (in light of the growing recognition of the need for evaluation in Ireland over the last 6/7 year period) also either derived or assumed high deadweight estimates by international standards as highlighted by Table 3. While many Irish studies also refer to or acknowledge the existence of displacement to date, Lenihan (1991; 2001) and Lenihan et al., (2003) are the only studies to have actually derived displacement estimates. Much more research is merited to gain firmer estimates of displacement over time and across agencies.

### Table 3. Deadweight Estimates Derived in other Irish Studies

<table>
<thead>
<tr>
<th>Authors (Year)</th>
<th>Evaluation of What (Focus of Study)</th>
<th>Where</th>
<th>Deadweight Estimate/Deadweight assumption</th>
</tr>
</thead>
<tbody>
<tr>
<td>Forfás (2003)</td>
<td>Start-up project</td>
<td>ROI17</td>
<td>80%</td>
</tr>
<tr>
<td></td>
<td>Expansion project</td>
<td>Greater Dubin region</td>
<td>80% 80% 60%</td>
</tr>
<tr>
<td>Forfás (2003)</td>
<td>Start-up project</td>
<td>ROI-Rest of Ireland</td>
<td>70% 75% 60%</td>
</tr>
<tr>
<td></td>
<td>Expansion project</td>
<td>High Potential Star-up project</td>
<td>ROI-BMW* regions</td>
</tr>
<tr>
<td>Forfás (2003)</td>
<td>Start-up project</td>
<td>ROI</td>
<td>80%</td>
</tr>
<tr>
<td></td>
<td>Expansion project</td>
<td>High Potential Star-up project</td>
<td>ROI-BMW* regions</td>
</tr>
<tr>
<td>Honohan (1998)</td>
<td>Key Issues of Cost-benefit Methodology for Irish Industrial Policy</td>
<td>ROI</td>
<td>80%</td>
</tr>
<tr>
<td>IEU (1999)</td>
<td>R&amp;D Policy and Interventions</td>
<td>ROI</td>
<td>50%</td>
</tr>
<tr>
<td>IEU (1999)</td>
<td>Micro Enterprise Supports</td>
<td>ROI</td>
<td>45%</td>
</tr>
<tr>
<td>IEU (2000)</td>
<td>Seed and Venture Capital Scheme</td>
<td>ROI</td>
<td>60%</td>
</tr>
</tbody>
</table>

*Border Midlands Western Region.

### 2.3 Explaining Deadweight Estimates

The Irish deadweight studies have been useful in terms of understanding and deriving headline estimates of deadweight. They have also highlighted the contribution that can be made from detailed evaluations of industrial policy. In the Irish case, a sufficient amount of evidence regarding the extent of deadweight exists to suggest that this is an issue that should be addressed by Irish industrial policymakers. However, Lenihan (2004) has argued that it is no longer sufficient to merely derive estimates of deadweight and displacement and to discuss their consequences. The focus of attention should also be on establishing specific firm factors (e.g., size of firm; type of firm ownership; type of assistance received) that influence these estimates. It is only then that real policy improvements and learning can occur. To this end, the explicit focus of the Lenihan (2004) paper was to ascertain whether certain firm characteristics are likely to influence the likelihood of deadweight and/or displacement effects. Given the plethora of evidence that exists regarding the prevalence of high deadweight in an Irish context, discussion here will focus only on the insights provided on the deadweight issue from the Lenihan (2004) study.

17 ROI-Republic of Ireland.
Employing data from the Shannon Development study referred to previously (but in this case including also the foreign-owned firms in the sample giving an overall sample size of 103 firms), Lenihan (2004) developed a Logit (predictive) regression model for deadweight. The objective of the econometric modelling exercise was to establish whether certain basic characteristics of grant-assisted firms could predict probable deadweight effects. It is essential, from a policy perspective, to establish if certain characteristics of grant-aided firms increase the likelihood of deadweight.

In the case of deadweight, it was found that grant type, size of firm, whether the investment appraisal included grant and whether firm was a first-time or repeat grant recipient all impacted on the level of deadweight. More precisely, for the particular year in question, firms that received employment grants were more likely to influence deadweight than firms that received grants for other purposes. Firms that did not include the grant they received as part of their investment appraisal were more likely to cause deadweight. Smaller firms were less likely to influence deadweight than larger firms. The econometric modelling application clearly demonstrated the benefits of the methodological approach employed and highlighted some interesting results. This however, was merely the first step in this type of analysis. The predictive modelling framework developed may also be useful for policymakers in terms of providing a type of ex-ante appraisal/evaluation template which may in turn be useful for their internal appraisal/evaluation procedures. For example, if over time, it was to be demonstrated that firms with certain characteristics were more associated with deadweight effects, then this should act as a potential signal to agencies to probe whether such applicants are genuinely in need of assistance.

3. KEY CHALLENGES AND OPPORTUNITIES FACING THE IRISH EVALUATION COMMUNITY.

3.1 Key challenges

Based on the discussion in the previous sections, one might conclude that estimating the additionality of industrial assistance in Ireland has become a well-established and widely utilised evaluation practice. This is certainly not the case and there are very few methodologically robust studies in Ireland that address the measurement issues associated with deadweight and displacement. Further, the deadweight phenomenon is even more complex than discussed above. The Lenihan et al., (2003) study of EI financial assistance to firms highlights some of this complexity.

During the fieldwork for the EI study it emerged that there may be indirect benefits (positive externalities) associated with financial assistance to firms which may to some degree help to offset high deadweight estimates (Hart and Lenihan, 2004). These positive externalities may include collaboration and international networking opportunities, information transfer, the freeing up of internal human and financial

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18 This type of analysis was not possible in the case of the EI study due to the relatively small sample size of the assisted population over the study period under investigation.
capital (which can then be used in other innovative actions within the firms), or the leverage of additional private sector financial support, including formal and informal venture capital for example. The key methodological challenge therefore, is to assess the extent to which the presence of positive externalities associated with public sector financial assistance to individual firms distorts standard methodologies designed to estimate the level of deadweight. Lenihan et al., (2003) and Hart and Lenihan (2004) demonstrate the importance of such issues when estimating deadweight. The role of EI assistance as evidence of due diligence (actual or perceived) and its importance in financial leverage was probed during face-to-face interviews with the EI assisted firms. The notion here is that one might anticipate that the true value of EI intervention to the firm was not only in terms of direct financial assistance received from EI but also in terms of its ability to leverage funds from other sources once it could claim that it had EI backing. Other potential sources of finance (e.g. banks and venture capital companies) might feel that this was a viable firm to support, given the amount of due diligence associated with EI funding. Heijs (2003) also refers to the indirect advantages to the firm. More precisely, he outlined:

“The public support could provide an important signal to the private credit institutions—facilitating the possibility to raise other funds—or to other firms by strengthening the wider reputation for forming alliances, for marketing products etc” (p. 449).

When Lenihan et al., (2003) formally calibrated the effect of the leverage factor into estimates of deadweight, the deadweight estimate was adjusted downwards by between 3 and 7 percentage points. Other positive externalities such as the likely benefits derived from being part of the EI international network (emanating from the fact that the firm received assistance from EI in the first instance) were also discussed by Lenihan et al., (2003). Although such less tangible impacts were not formally calibrated into deadweight estimates (therein lies a key methodological challenge for researchers in this field of research), the study nevertheless highlights their significance. Therefore, care must be taken in the construction of evaluation methodologies which seek to assess the level of net additionality associated with public sector programmes and initiatives. The key point here is that the process of providing financial assistance to individual firms normally includes a due diligence component which many firms find important in their attempts to raise additional private sector finance.

Further, in the case of EI assistance, deadweight estimates should also account for the fact that some financial assistance received is repayable. However, methodologically, this is very challenging given the complete absence of this type of assistance in evaluation studies to date. The repayability issue definitely complicates deadweight estimates. In particular, there is a need to be sensitive to the precise nature of the package of financial assistance provided to firms by an agency such as EI in that they comprise a variety of forms of assistance (e.g. repayable equity shares) which cannot simply be categorised as ‘grant aid’. To develop estimates of deadweight which exhibit some sensitivity to the concept of a repayable grant regime are necessary but have not been the focus of evaluation research to date. This lies among the most interesting aspects and challenges of future lines of research in this field of study.
3.2 Best-practice internationally

Considerable progress has been made in recent years regarding the evaluation of Irish industrial policy initiatives. While much of this has been linked to complying with EU regulations, there is a growing awareness of the value of such research in view of increased fiscal constraints and the fundamental principles of ‘opportunity cost’ and ‘accountability’. Nevertheless, in moving forward, it is imperative that we look beyond the Irish context to best-practice international studies in terms of developing appropriate methodologies for future evaluation studies.

Although not employed to date in the context of Irish industrial policy interventions, best-practice evaluation research is pointing towards the use of econometric treatment models (e.g. 2-step Heckman models) which account for ‘selection’ and ‘assistance effects’ (see Roper and Hart, 2003; Wren and Storey, 2002; Roper and Hewitt-Dundas, 2001; Roper et al., 2001 and Turok and Raco, 2000). Two types of selection bias should be taken into account. First, on behalf of the applicant (subsequent successful recipient of financial assistance) who may possess certain characteristics (for example, highly motivated, well educated, certain age, certain type of background etc) may be more likely to apply for grant assistance in the first instance. Second, bias may emanate from the fact that development agencies may in all probability be more inclined to provide financial assistance to certain types of firms than others (e.g. firms whom they consider to have growth potential—notion of backing or picking winners).

Carrying out a full scale longitudinal set of case-studies; control group analysis19; selection and assistance modelling and predictive modelling are methodological minimum standards now becoming imbedded within some of the evaluation work on industrial policy in Ireland and most of such work in the rest of the EU.

4. CONCLUSION

This paper has highlighted the importance of accounting for the phenomena of deadweight and displacement (two key components of overall additionality) in any impact evaluation. Whilst the discussion in this paper has focussed on financial assistance provided, similar evaluation procedures are appropriate for a much wider range of government programmes. Without doubt however, focussing on financial assistance to industry has the advantage of being more amenable to evaluation than the other types of ‘softer’ supports (Georghiou, 2002). The fact that money is a measurable input and that financial assistance (grant) may involve dedicated personnel facilitates measurement.

Indifferent of ‘what’ is being evaluated, the concepts of deadweight and displacement should be central to any evaluation which seeks to estimate the net additionality of a particular intervention. The methodological approaches discussed in this paper have

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19 The authors are currently working with EI to construct aggregate control group analysis for assisted and non-assisted firms in Ireland to assess the extent to which robust estimates of deadweight can be generated. Given the scale of assistance to Irish industry in recent years the contamination effect is seen as a major challenge to this methodological approach – i.e., creating genuine controls is a problem in such a policy intensive environment.
broad-based applicability and the methodological lessons are transferable. The methodological approaches discussed provide rigorous, structured but at the same time user-friendly approaches to evaluation. This is important given that the reason that evaluation went out of favour in the late 1970s was due to the perception that the techniques were too complicated and too far removed from reality.

There are many challenges facing researchers in this field of study. There is no single best evaluation framework in the same way there is no single best economic policy instrument. No one expects existing programmes to be up-rooted the moment analysis shows that they are ineffective. Much more modest hopes are in order which seek to improve the quality of the debate and to identify under-discussed policy options.

Evaluation is still very much in its infancy in Irish academic and policymaking circles. As the adoption of evaluative approaches is set to increase, the findings of this paper should provide timely and valuable lessons to those charged with the task of carrying out such evaluations.

References


