

Indicators and regional development policies. The Italian position and current practice.

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1. Introduction

Indicators are valuable tools that can help policy makers define their priorities for intervention, assess the progress made and inform the public on what has been financed and achieved¹.

In the case of regional development policies complex indicator systems are required due to the multiplicity of objectives, large number of projects in different domains and involvement of different level of government (local, regional, national, European). In fact, most of the knowledge needed to design these policies, to monitor their implementation and to measure whether objectives are being achieved is dispersed among various agents, at local and central levels, making the collection of relevant information and the creation of incentives of all levels of government to be responsible in delivering results a major challenge.

In this paper we look at indicators as compact quantitative expressions of policy actions. Such indicators can be fundamentally different in content and scope depending on:

- the accuracy or “proximity” of the link between what is being measured and the policy (e.g., a direct or indirect link, or an input, an output, a result, an impact).
- the different levels of policy they are related to (e.g., single projects, a program or the whole strategy)
- their purpose (e.g., informing and assisting policy choices, designing policy action, setting targets, guiding the implementation process, making decision makers accountable, evaluating the effectiveness or performance of policy, communicating with the public at large, etc.)

These three overlapping categories should be kept in mind when discussing issues related to indicators given that the requirements, the measurement problems and possible uses depend on which kind of indicator is actually being examined.

The purpose of this paper is to discuss the merits and limitations of alternative approaches to the production and use of indicators (based on the lessons learnt in the past years²), and to present the Italian approach to the design and use of indicators of regional development policy for the National

¹ There is a growing general interest in understanding how indicator systems are actually used by policy makers and the public at large and how decisions, pressure, incentives can be driven by this type of information. The OECD initiative on “Statistics, Knowledge and Policy” promotes a wide debate on these issues. Two World Forums were recently organised (in Palermo, November 2004 and Istanbul, June 2007) to gather the views of representatives from the academic and scientific world, politicians, high-level public administrators, NGOs and the civil society (http://www.oecd.org/site/0,3407,en_21571361_31938349_1_1_1_1_1,00.html).

² In particular, based on the experience of the indicator systems associated to the Community Strategic Framework (CSF) 2000-2006. This system is described “Measuring for decision making: soft and hard use of indicators in regional development policies”, Materiali UVAL Issue n.2 (2004) available at http://www.dps.tesoro.it/materialiuvall/indice_eng.asp

Strategic Reference Framework (NSRF) 2007-2013³. It also provides an opportunity to mention other boarder indicator systems which are being implemented in Italy to inform regional policy choices – such as the regional public account database and the regional context indicator database.

The first paragraph deals with issues related to the selection, measurement and possible uses of input, output, result and impact indicators and, in particular, their relationship with the monitoring system. The second paragraph provides some insights on setting targets for indicators and on using indicators and targets for programming, monitoring and evaluation purposes. Finally, a specific paragraph is dedicated to the Italian approach for 2007-2013, and to the Italian position with respect to the EU proposal of a list of “core indicators”.

1. Indicators according to their link to policy action: inputs, outputs, results and impacts

The standard distinction between *input*, *output*, *outcome* (or *result* in the structural funds’ jargon) and *impact* indicators is explicitly based on a project cycle approach: indicators are defined for every stage of the project cycle, in order to be able to measure the goods or services put in place by the project (output indicators), the results produced by the project itself (outcome/result indicators) and the broader and more permanent changes it effects (impact indicators). While output, result and impact are physical measurements, input indicators are typically financial.

EXAMPLE 1: Policies aimed at increasing fuel-efficiency in the heating of public buildings. **Output** indicator: square meters of indoor space treated for increased efficiency. **Outcome** indicator: effective reduction in the consumption of fuel per square meter in the buildings treated. **Impact** indicator: reduction in the emission of CO₂ gas, or in the overall energy bill of the public sector.

EXAMPLE 2: Matching grants given to firms to buy research services from university. **Output** indicator: Number of university researchers supported by firms benefited from the program. **Outcome** indicator: number of patent applications to the European Patent Office by the same firms. **Impact** indicator: number of firms classified as “innovative” in the region by the Community Innovation Survey (CIS)

The following paragraphs attempt to describe the main issues related to the selection, measurement and possible uses of each type of indicator. In fact, from a practical point of view, implementing indicator systems means facing a number of questions related to *the appropriate source of the data, the responsibility for reporting the information, the timing within which it is available, the aggregation of data related to different projects and the appropriate use which can be made of this data.*

1.1 Input indicators

Input indicators provide information on the amount and type of resources mobilized (among which the corresponding public expenditure) to implement a given project or program. These indicators are immediately available to the implementing agent who can specify the amount of financial

³ The occasion to clarify the Italian position is offered by the discussions held within the EU Eval-Network and in particular during the Brussels meeting on 20-21 September 2007 where Member States shared their views on the relationship between different kinds of indicators and the monitoring system and on a set of “core indicators” which could be reported to the EC by all Member States. In advance of the meeting, the EC asked Member State delegates to fill out a questionnaire which in Italy formed the basis for a similar, extended questionnaire that the Evaluation Unit has proposed to some of the most active regional members of the National Evaluation System .

resources allocated to a project and the amount of actual expenditure. Input indicators are reported in monitoring systems at the single project level and being expressed in monetary values, they can be easily aggregated at any higher policy level (groups of similar projects, different groups of projects, a whole operational program, the entire strategy).

Putting aside the obvious fact that expenditure data must be rigorously reported and publicly available, this kind of information is basic for any type of policy assessment. Managing authorities will use this information, for example:

- to monitor the implementation of the policy (are projects actually being financed? how much time is it taking to carry out the projects? are the resources allocated to a given policy still available?)
- to establish reference values on the amount of expenditure for a given type of project or to appreciate the average size of the projects being financed (what is the average cost of a given type project in a given sector and area?)

From a broader perspective (not related to a specific program or project) Italy can count on regional information on public expenditure which has been made available in Italy since 1996 through the Regional Public Accounts (RPA) database, sponsored and supported by the Department for Development Policies (DPS), with the direct technical and methodological contribution of all the regions and autonomous provinces⁴.

The RPA database provides information on revenues and expenditures (on current and capital account) of the wider public sector in the individual regions. Data is organized by region, level of government, sector and economic category of the expenditure. The database adopts a bottom up approach, based on the ex-post classification of financial flows in the individual territorial areas, which are then aggregated to form the total for the country as a whole. The information on expenditure flows is the product of a classification based on the balance sheets of government departments and other public entities. It therefore takes account of the definitive accounting data for actual expenditure. Each entity is considered as a final expenditure unit, using consolidation techniques to eliminate flows between the various levels of government.

Detailed data from the RPA database is not directly comparable with data on the expenditure of an operational program financed by structural funds and available through the program's monitoring system. In fact the RPA data does not allow for a distinction between the source of the financial resources (whether structural funds, other development funds, general government ordinary expenditure, etc.) and it comes from an accounting perspective.

Nevertheless it provides valuable information for decision makers to assess the territorial effects of the distribution of resources, the trends in different sectors, the policy mix between capital investment and transfers to households and public and private enterprises, the roles of central government, local authorities and other public sector entities, the relationship between current and capital expenditure – all of which are essential to design a development strategy and analyze its impacts.

⁴ The database and related documentation is available at the link http://www.dps.tesoro.it/uval_eng/regional_public_accounts.asp. For a general overview on analyses which be carried out with this data see also "Measuring the results of public intervention: data for evaluating the territorial impact of policies", MUVAl Issue 6 (Analisi e studi), 2005 http://www.dps.tesoro.it/documentazione/uval/materiali_uval/MUVAl_n6_eng.pdf

1.2 Output indicators

Output indicators measure in physical terms the change produced directly and exclusively by a project. Output data can be made available by the project beneficiary as the intervention advances and at its completion, and stored in a monitoring system. However, past experience has shown that output indicators run the risk of remaining blank in the monitoring system what the list of indicators is too long and complex. Similar projects may specify different types of outputs or express them in different measurement units, and it can be a burden for managing authorities to insure the reliability of the output data.

One useful feature of the Italian 2000-2006 experience was to establish a common list of project categories and sub-categories linked the EU priority themes to be used by all managing authorities (at the project level) for the monitoring system, in addition to the EU project codes. Detailing the project characteristics through categories and sub-categories is useful to have a common and more precise view of what is actually being financed. A detailed list of project types and subtypes can help: (1) limit the number of common output indicators, (2) request indicators that can always be provided by the beneficiary even at the beginning of the project and certainly at the time of final payment. The exact indicator should be associated project type and in advance, with instructions on the measurement unit to be adopted. When aggregation of output indicators is not ensured among similar projects, the use of this information is limited. A minimum common list of compulsory output indicators by project type should be encouraged.

Another interesting - but unsuccessful feature - was the inclusion in the monitoring system of a field to report the economic sector for those private activities benefiting from financial resources (according the standard statistical nomenclature for economic activities, ATECO or NACE). It would have been very useful to analyze this kind of information and thus understand to which economic sectors the program is actually being directed, but unfortunately the data is missing or incomplete. The authorities responsible for the collection of the monitoring data should be encouraged to register some information on the type of economic activity, as this data is easy to gather from the beneficiary.

In most cases it is difficult to associate output indicators to wider program objectives or funding lines, as each one of those lines embraces totally different types of projects. Although it is in some cases possible to describe the progress of programs towards their objectives by aggregating the output measures originally calculated with reference to individual projects, at the **program or program component level** (lines of funding/priorities) result and impact indicators become more significant.

1.3 Result indicators

Of course the production of result indicators at project level should be encouraged when relevant. However, while the connection between a project and its outputs is rather straightforward, when considering results several not obvious questions must be tackled from both the production and the use point of view. The **production of result indicators** presents a number of difficulties related to defining an appropriate indicator, to identifying the possible source of information and the authority which should take responsibility for collecting these indicators or which is most fit to guarantee their reliability. Past experience indicates that the monitoring system is not suited to produce/collect result indicators and justifies the Italian choice to collect result indicators outside the monitoring system for 2007-2013 period.

The first issue which needs to be addressed is *how to measure the desired and actual result*. Result indicators must be relevant, that is to say close enough to the actual policy actions to be their intended objective and to be their direct consequence (although some additional exogenous factors

may intervene). At the same time they must be feasible/measurable and simple enough to understand, both for the policy makers and the wider public.

The choice of an appropriate result indicator also depends on how clear the strategy of the program is. By strategy of the program we intend the theoretical cause-effect chain which the program expects to activate so that outputs produce the desired results and impacts. Whenever this theory is not clear, or, even in cases for which solid theory is available, because of the interaction of many, known and unknown, variables, indicators alone may not suffice in making explicit which quantitative results and impacts are expected.

Defining appropriate result indicators may therefore be difficult in general. In the case of structural funds, carrying out this task for all projects and at program level is even more complicated due to the nature of the programs: they have a wide scope and tend to finance myriads of very different and fragmented projects. Each type of project can be connected to several different results through specific causal links and it is often the interaction between different projects that is expected to produce a result. This makes it particularly difficult to define a unique and straightforward link between output and result indicators, especially at the project level in the monitoring system.

A second key issue is related to *who should be responsible for measuring the result and what source of information should be used*. As past experience proves, it may not always be possible to collect result indicators from the beneficiary at the end of the project for various reasons:

- a) the results of the project are not immediately observable at project completion and after the final payment the beneficiary has little incentive to provide managing authorities more data,
- b) the beneficiary might not necessarily be the body running the facility built/developed by the project, and managing authorities may lack the ability and power to collect information from such other parties. This means that, in most cases, information on intended results is to be collected by a different kind of activity than the one related to project implementation.

In such cases either there exists an accessible administrative source which can release the data upon demand, or a specific *ad hoc* survey will have to be carried out (and in such a case, given that specific surveys are complex and costly, they can be used only in a limited number of relevant cases).

Another primary concern, partially connected to the problem of selecting an appropriate source to measure results, is *how to ensure that the data collected on results be reliable*. It is better to have fewer sound observations rather than many empty/blank result indicators (as occurred in the past). The quality of data for result indicators at the program level will definitely be dependant on what happens at the general capacity building process of the various administrations involved and their ability to collect data either directly from beneficiaries or through the coordination of other sources or through specific surveys.

In some cases, in the interest of maximizing the quality of result data, it might be preferable to have it measured by a “neutral/independent” body – this issue being of particular relevance when targets on the result/impact are part of high-stake incentive mechanisms (as it is the case for a number of targets associated with regional policy in Italy in the 2007-2013 period).

The typical difficulties Italy has experienced in collecting result indicators - for example, difficulties in collecting data from the beneficiaries once the final payment has been made, in getting reliable information from the ground when there is no particular incentive, in ending up with lots of blank indicators, etc. - have been reported by other Member States in the course of the evaluation network meetings, as well as during Twinning projects we have participated in.

As regards **the use of result indicators**, during program implementation they are usually expected to provide proper monitoring of the directions taken by the program in action and, therefore, to support decision makers in eventually re-orienting actions and re-allocating financial resources.

This line of reasoning is important, but its real viability should be carefully tested against a series of key issues, such as:

- the time lag that often exists between the actual output (completion of the project) and the manifestation of results;
- the actual link between result and output in a framework constituted by thousands of different projects/actions (each of which may carry a very limited financial provision, but their interaction may represent a relevant part of the policy);
- the “quality” of the targets set *ex-ante*

In conclusion, while Italy recognizes the need to identify and measure results, we feel that this purpose is best achieved by collecting output and result measurement through separate means, complementing the result indicators, when necessary, with specific, ad hoc, research within evaluation activities. However, in an attempt to facilitate the use of monitoring data for evaluation purposes, within the monitoring system one can attempt to establish of a formal link between each observed project and result indicators towards which the project is mainly supposed to contribute.

1.4 Impact indicators

The practical aspects connected to the production of result indicators as described above, hold for impact indicators as well. Although each operational program should focus on a few specific impact indicators depending on their specific strategy and priorities, it is useful to adopt a set of common impact indicators at national level. In both cases financial provisions should be made beforehand (for example through the technical assistance component of the programmes) to make sure that surveys and evaluations and/or the production of the necessary data will be possible.

The common set of impact indicators related to the overall strategy can – at least in a major part - be quantified through information derived from official statistics at the appropriate territorial level. Setting targets for these indicators and interpreting their changes in the course of program implementation has a lot to do with isolating the impact of the program on them. In fact, when secondary statistics referring to a whole territory are being analysed, the problem is whether the measured progress can be really attributed to the policy given that other external factors (outside control of the program or project) are affecting the very same values. Only under clear and explicit assumptions and with caution can these indicators be used only as measures of policy effectiveness.

The indicators employed in Italy at the level of the National Strategic Reference Framework 2007-2013 are eminently impact indicators (see paragraph 3). They are collected centrally in collaboration with the National Institute for Statistics (which guarantees the reliability of the measures). In Italy, the large financial dimension of regional policies (European and national additional resources) in comparison with the remaining public investment expenditure in most of the regions lagging behind, makes the problem of isolating its influence on the indicators in several (but not all) cases tractable.

The 2000-2006 experience has proved that the availability of a large set of regional indicators on the main priorities of the regional development policy (at that time the CSF) selected from official statistics and available periodically (annually), is useful for all agents involved in the policy, even if it is in any way sufficient to evaluate the impact of the policy. However, it allows managing authorities and decision-makers all at government levels to benefit from a general common set of indicators at least partially linked to their own priorities and to concentrate on evaluating and quantifying impacts for those larger and more significant areas of intervention which make it worthwhile.

In Italy this is precisely the role of the regional context database promoted by the Department of Development Policies and National Statistical Institute. The database is free for public access on National Statistical Office's web-site, a brief newsletter is produced three times a year and the data is analyzed in the Department's Annual Report⁵. The construction of the database has been a way of actively promoting a wider production of official statistics at the territorial level in sectors where data was lacking.

In conclusion, the past experience which has been referred to here justifies the choices for 2007-13 - summarized in the table below - with regard to the sources considered most feasible, reliable and timely for each category of indicator, to the appropriate level of the policy, and on how that can be and to their use in the evaluation of policy.

Category of Indicator	Feasible source	Where the indicators are archived/fed	Imputation	Attribution of effects
INPUT	Managing authority	Monitoring system	Specific project or intervention	Direct and exclusive result of public intervention
OUTPUT	Beneficiary	Monitoring system	Specific project or intervention	Direct and exclusive result of public intervention
RESULT	Several primary sources (e.g., administrative data, ad hoc surveys)	Specific indicator system	Project, funding line, or measure	Predominantly result of public intervention
IMPACT	Secondary and primary sources.	Specific indicator system for a broad analysis and specific evaluations for actual measurement/estimation	Program objective, or program as a whole, entire strategy	Public intervention is only one of the many influencing variables

⁵ The website to view the data base is: http://www.istat.it/dati/db_siti/contesto/ and access to the newsletter: http://www.dps.tesoro.it/numeri_del_sud.asp.

2. Using indicators for programming, monitoring and evaluation purposes

2.1. Selecting indicators and setting targets – a programming task

Relevant policy indicators reflect the objectives of a program and reflect its priorities; therefore, the tasks of programming and designing indicators should be closely associated. Selecting indicators and setting targets should be considered an integral part of the policy design or programming process in many ways, as they can:

- specify the transformations that the program is intended to produce and reveal actual priorities (i.e., reducing the fuzziness of policy objectives);
- allow for more efficient resource allocation within the program and on the ground (supporting decision makers in understanding how many resources are needed, where they should be allocated and which kind of actions should be carried out and where);
- use information on the distance from targets to improve and, if necessary, to readdress policy actions *in itinere*;
- increase the accountability of the many actors involved in decision making and of the administrations responsible for policy implementation. In a way this should also provide policy makers with a “political incentive” to achieve the announced goals. Experience suggests that the pressure of revealing through indicators the improvement (or non-improvement) of a given policy will not occur automatically. Future research and discussions should aim to increase our understanding of the conditions that make this kind of incentive work and of the properties of indicators that align the citizens’ perceptions and the public debate with the goals that policy sets, creating the right incentives for those who are in the position to make policy intervention effective.

These remarks hold for any “category” of indicator – whether they are related to the outputs, outcomes/results or impacts. In fact, during the programming process, appropriate indicators and targets should be defined for all three categories.

In the CSF 2000-2006 targets were quantified for a sub-set of the regional indicators connected to the general priorities. The identification of targets to be reached by 2008 for the whole of the Objective 1 area was carried out by experts coordinated by the Evaluation Unit of the Department of Development Policies and involving the regional administrations recipient of EU funds and responsible for selecting projects. Targets were quantified analyzing the variables, trends and the comparative position of the least developed areas with the more developed ones and by relating the expected results to objectives and strategies of the CSF. A similar process was conducted at the regional level to identify regional targets for the operational programs. However, our impression is that regional decision makers have rarely used the benchmarks to improve and, if necessary, to readdress their policy actions, nor to gain better awareness. Designing indicators and setting target values are tasks that have been kept separate from programming: the parties responsible for each activity have been different and have communicated limitedly with each others.

Past experience has thus proven that the purposes mentioned above are more likely to be reached if the indicators carrying targets are considered extremely relevant for the policy objectives and intelligible to all the stakeholders. Indicators and targets should be selected through a participatory process involving policy makers who have political and administrative responsibility on the program, at the time when the strategy and the financial allocation among themes/objectives are discussed. Policy makers can indeed help to explicit the cause-effect chain and to link indicators (and their targets) to specific locations where interventions are going to take place or to clearly

defined lines of action to implement. *Ex-ante* evaluations should also contribute, providing the programmers with the necessary technical expertise.

However, several hints suggests that that indicators and targets of are still not considered as a relevant tool and task in the programming function in Italy and in other Member States. This could be an area worth further investigation within the Eval-Network.

2.2 The use of indicators: monitoring and evaluation

For the 2007-13 period, the Italian monitoring system is mainly built as a **management and accountability tool**. Its information content is designed in response to the needs of managers, managing authorities, and monitoring committees. Secondly, it considers the need, or right, of the wider public to receive synthetic information on the programs' actions. "what the program has done". This is not equivalent to "the effect or the program", which is the main concern of evaluation.

So when it comes to understanding the characteristics of the interventions and their effects, we rely on specific evaluations to provide data on results and their explanations. Information contained in the monitoring system of the type of interventions, their location, their outputs is obviously essential in building evaluation schemes, but these indicators are non sufficient to measure the impact of the interventions on the phenomena of interest, that are affected by many other exogenous variable. Evaluation will start to draw from data available in the monitoring system, but will require additional direct research and data collection. Moreover, in the case of structural funds policy (and any large development policy), evaluation must also focus the long term effects of the intervention and not only what happens during the project implementation.

Monitoring and evaluation are thus to be considered linked but separate. It is possible, in fact, to identify various links between the monitoring function and evaluation whose actual benefits are connected to the quality of the available data :

- Since the monitoring system will collect and systematize financial and output data, it will produce important descriptive information that will be provided to the evaluators.
- From observation of output data⁶, managing authorities as well as social and institutional partners will derive more specific and better evaluation questions, inquiring into intervention results and impacts.
- Data from the monitoring system (along with data collected *ad hoc*) may feed into econometric models providing estimates of impacts, can be the basis for the design of impact evaluation schemes with counterfactual hypothesis, can be used to identify locations and beneficiaries for fieldwork.

3. Indicators in the Italian approach to 2007-2013

Different sets of indicator systems are being designed for the Italian 2007-2013 regional development policies. Their main characteristics and properties depend on their function and on the policy level they refer to (overall strategy, program, and project level):

- regional context indicators linked to the 2007-2013 NSRF priorities contribute to understanding the overall impact of the strategy and programs;

⁶ We also hope that discussions in monitoring committees will get extra-information on characteristics and problems of the various projects which go beyond the capacity of the monitoring system

- a sub-set of these indicators are a part of an incentive scheme striving to upgrade regional and local authorities performance in managing financial resources (whether those dedicated to development or to ordinary public expenditure) to enhance the effectiveness of the provision of public services in selected fields with the ultimate goal of improving governance in sectors that are key to economic and social development;
- program-level indicators – included in regional and national-level development programs are very diverse. They are chosen by the management authorities of programs to perform different sorts of measurement - of output, result and impact – and are used both to improve the quality of programs and their accountability;
- data from the monitoring system (financial input and physical output indicators) are necessary for managing authorities — both line managers and coordination units – and other stakeholders to assess the advancement of the programs.

At the project level, the monitoring system produces output indicators while result and impact indicators are established at the wider program and NSRF levels through negotiated and interactive processes involving different program managers and stakeholders. The unit measures, targets and responsibility for calculation are established by the programs or support framework that the indicators are meant to measure. This institutional system separates neatly monitoring from evaluation, which uses monitoring data and other indicators, but requires further elaboration and interpretation of indicators in order to address the complex questions related to results and impacts of policy intervention. Result indicators are generally excluded from monitoring, in the interest of enhancing their quality and of the quality of the monitoring data. The indicators that can be calculated from monitoring data, on the other hand, cannot satisfy the need of evaluation for a deeper understanding of the cause-effect links between intervention and results.

This approach, which is not unique to Italy, does not diminish the role of result indicators. In fact, we do agree with the emphasis that the European Commission puts on result indicators - which are probably the most relevant to describe what policies have actually done and to somewhat measure whether the funding has been used effectively. Actually, the performance-based incentive mechanism adopted by Italian authorities for 2007-2013 probably the most prominent innovation of this programming cycle, is based mostly on result indicators. Nonetheless, for reasons explained in the following paragraphs, we do not believe that in practice result indicators can, in general be collected within the monitoring system.

3.1. Indicators at the NSRF level

The EC Regulation holds no specific provision with regard to indicators in the NSRF (art.25), while at the level of priority axes of the OPs it foresees a limited number of indicators for outputs, whose function is *to measure the progress in relation to the baseline situation and the effectiveness of the targets implementing the priorities* (art.36).

Italy has chosen to include indicators in the NSRF, as well as in the OPs. In the **NSRF** a set of about 80 indicators provide data related to the strategy, available at the regional level and in time series (annually updated). These indicators are classified on the basis of the NSRF's ten "priorities" and constitute **the NSRF observation tables**⁷. Their main function is to contribute to a measurement and understanding of the changes the territories face before and during the regional policy intervention.

Only a limited but qualified number (about 15 in the case of the Southern regions and less in the case of the Center-North) of these indicators carry explicit **targets** which are referred to the attainment of measurable objectives in the whole area/region as an effect of the overall policy

⁷ For a complete list see: <http://www.dps.tesoro.it/qsn/indicatori/>.

actions the area is subject to, whatever the source of the financial resources involved. Considering the nature of the chosen indicators – which depend on multiple variables many of which are outside the control of policy – their use as measures of impact presupposes the capacity of the NSRF to guide the overall policy action in those fields covered by the indicators.

As a part of the overall strategy, some (eleven) of these targets are defined within a **performance-based incentive scheme** which rewards the provision of and quality a chosen set of “essential public services”⁸. The managing authorities of eight regions of Southern Italy and the Ministry of Education are subject to this financial incentive mechanism, which aims at focusing policy action and reinforcing their accountability. The public services involved in the incentive scheme were chosen on the basis of their relevance for regional development policy, their importance in enhancing general background conditions for economic activity and for the improvement of living conditions. They refer to five sectors: education, child and elderly care, water and waste management. Their delivery depends on the action of many levels of Government (Central, Regional and Local), each endowed with specific responsibility. Therefore the choice of indicators and targets and the definition of the incentive scheme required a complex integration of financial resources and administrative responsibilities. Around €3 billion are conditioned to the attainment of the targets, and the rewards must be reinvested in the same sector.

The discussion leading to the selection of the indicators for the essential services focused on the requirements and properties of each indicator in terms of measurability, interpretability, relevance and accountability. The process of selecting indicators was been made with regional decision-makers responsible for development policy and with beneficiaries of the performance based scheme, in order to make them feel fully participant in the policy choice. Experts from the National Statistical Office and Central Agencies have also participated and regional decision makers have discussed the tentative choices within their administration and with local authorities in charge of providing the services.

Targets to be met at 2013 are the same for all Regions, since they represent minimum standards for an acceptable level of service. The values of the targets were agreed upon by the authorities participating in the incentive mechanism, taking into account and discussing normative targets such as the ones set by European Directives and National laws on water and solid waste or the ones set at European level by the Lisbon strategy regarding education⁹. Once targets are officially endorsed, the participating Regions have a few months to define an operational plan describing the policy actions, resources, and organization needed to attain the targets.

In our case, data collection on the progress of result/impact indicators by regions at the higher strategy level is anyway ensured by the central level; insofar as the observation of a declared link between each specific project and one of the relevant indicators at the NSRF level is a key information and a step forward. The focus on results at the program level would be more effective if it gave an orientation to the activity of Monitoring Committees, requesting that data on results (in case they were different or more restricted than the information which is provided to all actors by the central level) be collected through specific activities in the relevant cases. These activities may imply a different time frame and different actions from those required by the implementation of the projects that the program actually can fund.

3.2 At the Operational Program level

In the past, managing authorities have used indicators mostly to comply with EU requirements, while programming and implementation tended to be heavily influenced by past actions and to

⁸ For an in-depth description of the mechanism see: <http://www.dps.tesoro.it/obiettivi%5Fservizio/eng/ml.asp>

⁹ In many cases the values are connected to the current values observed in the more developed regions (North of Italy) or in Italy, in order to reduce the gap.

change only in a limited way over time. Regional decision makers have seldom used the benchmarks to improve and, if necessary, redress their policy actions. As it was described in previous paragraph 2.1, the current approach to the design of indicators promoted by the Department of Development Policies is meant to eradicate this deep-seated practice.

Since 1998, the Department for Development Policies—together with regional and central policy-makers—has strived to make available sound and reliable information (quantitative and qualitative, expressed in indicator systems or not) central in planning and implementing development interventions. The programming process for 2007-2013 has benefited from both lessons learned throughout the 2000-2006 period and from new ideas. The results of this effort, as they emerged from the round of consultations on these issues promoted by UVAL in September 2007, are mixed¹⁰.

Regional authorities exhibit a remarkable diversity in the interactions between the design of indicators and the programming process. In this respect, as in others, though, the type of interaction differed depending on the type of indicators. Indicators synthesizing context conditions appear to have been used as signals of social and economic needs that the program should satisfy. Only one case so far has been reported in which the indicator-based incentive mechanism pushed programmers to strengthen interventions that appeared most likely to increase the delivery of such services.

The experience with program indicators—especially output indicators—appears to be highly variable. These indicators have been most commonly identified in the later stages of the programming process, or even at the end of it—in which case, regional authorities, they did not influence the program at all. These indicators are used to check the internal coherence of the program and to make informed hypotheses on expected outcomes. One Region claimed that identifying indicators permitted to draw attention on outcomes, which, in turn, brought about changes in the type of interventions that were programmed. This claim is interesting, since we have observed that, in general, development programs often seem to perpetuate past forms of intervention irrespective of the analyses which have become available regarding social problems and the effectiveness of past intervention.

3.3. At the project level

In Italy, the monitoring system comprises a centralized database which collects and stores a subset of the information compiled by the managing authorities,. This system collects only **project level** data, i.e. attributes of individual projects, including the typical financial and procedural data, as well as a well-defined set of **output indicators**. Given that the list of output indicators is fixed and compulsory, it will be possible to aggregate (sum up) the values of outputs across projects of the same kind. This system amounts to a significant simplification with respect to the past. In particular, the reduction in the number of indicators collected from beneficiaries increases the expected compliance with the requests of the monitoring system, and the expected quality of the data provided (in terms of the number of blanks or errors in the system).

¹⁰ These remarks are based on information provided by five regions to which we have submitted a questionnaire similar to the one the EC Eval-Network committee asked Member States to fill out ahead of the Brussels meeting in September 2007. the main topics were:

Q1 : How did the design of indicators and the development of the operational program interact?

Q2 : How useful have you found core indicators? Do you have any suggestions how to improve them?

Q3 : How do you gather data on indicators and ensure their quality control?

Q4 : How will the indicators be used by the programme managers (Managing Authority and intermediary bodies)?

Q5 : How do you ensure the link between monitoring and evaluation functions?

Q6 : How does your monitoring system ensure appropriate links between outputs and results? Was the focus to develop result indicators for the programmes helpful?

In practice, it will be compulsory for each project to fill in:

- a) A pre-determined *output indicator determined by the type of project selected*¹¹. In so far as possible, the indicator measures what the project “physically” produces. The list of indicators includes some of the core indicators suggested by the EC in Working Document n.2: Indicative Guidelines on Evaluation Methods: Monitoring and Evaluation Indicators - August 2006¹²)
- b) An *employment output indicator* measuring the number of jobs directly activated by the project (in order to comply with EC Working Document n. 6: Measuring Structural Funds Employment Effects”, March 2007¹³). The indicator represents the direct employment generated by the project during its implementation in the case of infrastructure development and services’ projects; it measures the number of additional stable job positions generated once the project is completed in the case of subsidies to the private sector.

The decentralized authorities may decide to collect other “optional” output indicators as well.

The output indicators will carry targets set *ex ante* for each project. Actual values will be observed (mostly) when single projects are completed. Although these values can be used for evaluation purposes (e.g., comparing them with the initial target values or other standards) or as first evidence of what the program has actually done on the ground, this is not their principal function.

In an attempt to facilitate the use of monitoring data for evaluation purposes, the national monitoring system also asks to associate each observed project with one result indicator towards which the project is mainly supposed to contribute. A large set of result (and impact) indicators has in fact been agreed at the NSRF level and it is with reference with this set that we are planning to implement this link, especially when considering the fact that the NSRF indicator set is defined also at the regional level. Similarly, the system allows to link each specific project with one result indicator defined at program level.

Data on output should be used above all by line managers to redress the programs during implementation. Output data can also be used to report to the public, both before and after project completion, in order to increase awareness of the concrete goals set for the policies by planners and politicians. In order for managers to utilize all available information sources, including indicators, we rely on incentive systems put in place by the NSRF (including more effective ways of communicating the output of programs to the public), the growing pressure on output and impact of intervention, and of the change in management styles and mechanisms that the Department of Development Policies has been working to effect.

The objective is to expand the field of attention of line managers, managing authorities, and Monitoring Committees from formal, procedural, and financial issues towards what the programs actually produce and, in perspective, towards results and impacts.

3.3. Core indicators – towards a common set of output indicators for structural fund programs across the EU

In the comments provided to the Commission guidance (*Working Document No 2*). document on indicators (two years ago), Italy has already had a chance to express reservations regarding the

¹¹ The standard project-type list is linked to the national investment programme coding system CUP (Codice Unico di Progetto, <http://www.cipecomitato.it/cup/cosa.asp>). Since 2003, all public administrations should make use of the CUP system attributing a unique 15-position alphanumeric string to very investment programme financed (entirely or partially) with public funds. Requiring the use of CUP codes in the monitoring system for structural funds as well, should improve central and regional administrations’ capacity to link with ordinary policy.

¹² http://ec.europa.eu/regional_policy/sources/docoffic/2007/working/wd2_indic_en.pdf

¹³ http://ec.europa.eu/regional_policy/sources/docoffic/2007/working/wd6_employ_en.pdf

approach of core indicators. On one hand we welcome the attempt to agree on a common set of indicators at the EU level, to be used mainly for reporting purposes. The position of the DPS as a coordination authority of different and independent programs puts it in a position similar to that of the Commission, whose interest in aggregating and comparing across programs measures of output and outcome we fully share. In order to be able to produce such standardized reports in the course of implementation, monitoring systems must employ standardized measures of program advancement agreed upon ex-ante.

However, the Italian position differs from that of the Commission on the two related aspects of the process been adopted to select the common list of indicators, and on the indicators actually provided in the WD n.2.

With respect to the first point, the selection of indicators advanced by the EU commission suffers from a lack of participation of the authorities involved in similar exercises at the national levels. The desirable process of convergence on a limited number of common indicators can only start from the knowledge of the starting point of the different systems in terms of information content. The quality of the standardized measures would have benefited from a greater awareness of the existing batteries of indicators being proposed at the national level for the coming programming period, and from the information available to sectoral experts who face similar reporting problems at the national level.

Coming to the second point of disagreement, the Italian battery of standardized indicators at the national level differs from the list of “core indicators”, although it incorporates some of them, mainly on two different aspects. Firstly, the Italian national level “core indicators” are, with few noticeable exceptions, only output indicators, which measure the direct and exclusive manifestation of the project’s intervention. Secondly, as already illustrated in the previous paragraph 3 dedicated to output indicators collected by the monitoring system, these measures are expressed as much as possible in physical terms. Therefore, unit measures like financial values, percentages, or units corresponding to the number of projects are not included in the battery of indicators.

The Italian experience indicates that a standardized battery of output indicators can be built only on a solid and well-thought classification of project types. The existing classification known as EU Categories, for instance, employed in 2000-2006 does not constitute a valid basis for the physical measurement of output. The effort to converge on a , much needed common set of output indicators, involves the adoption of a classification whose categories represent as much as possible the physical manifestation in the space of project intervention.

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Appendices

Appendix A1

Method of determination of the physical and employment indicators associated to each project within the Italian 2007-2013 monitoring system of regional development policies.

The indicators to be filled out for each project depend on the national classification of projects which pre-exists the regional development policy and covers all investment interventions funded by the state on all the national territory. The classification, which is required in order to obtain the mandatory national code of each project (CUP, Codice Unico di Progetto), has two dimensions: Project Nature, and Project Object. The first has two levels of detail, the second three. Here below is a translation of the two dimensions of the classification, limited to the first, more aggregate, level. Only one of the classes of each dimension, underscored, is expanded into the two finer and more detailed levels.

Project Nature

01. Procurement of Goods

02. Production or procurement of services

03. Public works

- 01. new construction
- 02. demolition
- 03. reclamation
- 04 Restructuring
- 05 Restoration
- 06. Ordinary maintenance
- 07. extra-ordinary maintenance
- 51. completion of new construction
- 52. completion of new demolition
- 53. completion of new reclamation
- 54 completion of new Restructuring
- 55 completion of new Restoration
- 56. completion of new Ordinary maintenance
- 57. completion of new extra-ordinary maintenance
- 58. enlargement
- 99. other

06. State aids directed to non-entrepreneurial entities

07. Incentives to productive units

08. Purchase of shares and capitalization of firms

Project Object

01. Transportation infrastructure

02. Environmental and water infrastructure

03. Energy infrastructure

04. Productive areas

05. Social infrastructure

- 08. welfare and schools
 - 081. Social, cultural and welfare buildings
 - 082 Creches
 - 083 pre-schools
 - 085 university buildings
 - 086 School buildings
 - 999 other social purpose buildings
- 10. Housing
 - 100. rural houses and rural hamlets
 - 103. urban public housing
 - 104 reconstruction after natural disasters
 - 105 civil infrastructure for public housing
 - 106 Community residences
 - 999 other housing buildings
- 11. reclamation, valorization and fruition of cultural assets
 - 093. monumental buildings
 - 095. interventions in archaeological areas
 - 096 restoration and reclamation of cultural assets
 - 097 Museums, archives and libraries
 - 098 restoration and reclamation of rural assets
 - 999 other works for the fruition of cultural assets
- 12. sport leisure and shows
 - 098 sport facilities
 - 100 Theatres and other spaces for shows
 - 101 Expo and congress facilities
 - 999 other leisure facilities
- 30. Health
 - 111 Hospitals
 - 130 other facilities for hygiene, prevention and health care
 - 150 other local health centres
 - 153 Nursery and care homes
 - 999 other health-related buildings
- 31. religion
 - 001 Churches and other places of worship
 - 002 buildings for religious services
 - 003 monasteries
 - 999 other infrastructure for worship
- 32. defence
 - 090 army barracks
 - 999 other military buildings
- 33. administration headquarters
 - 001 infrastructure for institutional headquarters
 - 003 public works for Public administration buildings
 - 004 buildings for public offices
 - 999 other headquarters and administrative offices
- 34. judiciary and penitentiary
 - 092 houses of detention
 - 094 civil and criminal tribunals
 - 999 other judiciary and penitentiary buildings
- 36. Public security
 - 001 police stations
 - 002 building and infrastructure for civil emergency services
 - 999 other infrastructure for public security
- 99. other social infrastructure

- 096. cemeteries
- 191. maintenance of streets and public spaces
- 192 urban parks
- 193 public lighting
- 998 other infrastructure
- 999 other public buildings

06. Infrastructures, plant and equipment for production and research

07. Infrastructure for communication and information technology

08. Research & development, and innovation

09. Services to firms

10. Services to the Public Administration and to the public

11. Training and Labor market support

Example I

Project restructures an old historical building owned by a municipality, whose destination is going to be a youth center for the arts.

Classified in terms of **Nature** as:

03. Public Works – 05 restoration

in terms of **Object** as:

5. Social Infrastructure - 12. sport leisure and shows - 999 other leisure facilities

The combination of the two project codes returns two output indicators to be filled out for the specific projects

(1) Physical output indicator: **Area restored in Square meters**

(2) Employment indicator: **Number of Jobs created during construction work**

Example II

The project funds firms to buy research services for universities and research centers, prototyping of product ideas.

Classified as

Nature: 07. Incentives to productive units – 19. purchase of real services

Object: 8. **Research & development, and innovation** – 61 research projects at universities and research centres - 617 production and industrial technology

The combination of the two project codes returns two output indicators to be filled out for the specific projects

(1) Physical output indicator: **Number of research man/days purchased**

(2) Employment indicator: **Number of overall Jobs created during service delivery**