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Joint Evaluation

Derek Poate

# Measuring and Managing Results: Lessons for Development Cooperation

Performance Management



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# **Performance Measurement**

## **Summary**

### **1. Managing for results**

Public sector performance has been a driving issue in the 1980's and '90's as taxpayers and voters challenge governments to demonstrate value for money in public services. Governments have responded in a variety of ways. Analysis of bureaucracies identified weaknesses in organisations and procedures: poorly specified objectives, ill-defined responsibility and too much emphasis on spending money rather than getting results. The response by many of the OECD member states has been to fundamentally reform the ways government departments do business.

Central to the change has been the adoption of a results-led approach to management with new procedures for setting objectives, monitoring progress and reporting performance. The notion of performance embraces both the achievement of objectives, and the efficiency and effectiveness with which those objectives are met.

One of the most visible aspects of the new procedures is the use of indicators, many of them published and publicly debated, to describe performance. The ways in which information arising from indicators is used by manager to refocus or improve activities is part of *performance management*. But for the use of that information to be effective, the organisation has to have rules and procedures, accountability and resource flexibility. The key phrase has been '*let the managers manage*' and by devolving authority, states have aimed at leaner, more efficient public services.

These reforms have not passed aid agencies by. Development workers have long promoted monitoring and evaluation, with key indicators, reports and impact studies. But as the agencies' own documents show, those systems have rarely lived up to expectation. With the advent of public sector reforms so the aid agencies have begun to revisit their M&E arrangements, looking for ways to develop effective learning systems and support their client countries.

This report examines the main features of the OECD reforms, using selected countries as examples. Lessons are drawn from the experience of both aid and wider public sector agencies in order to identify how aid agencies can introduce performance management in the most effective way.

### **2. Performance measurement**

Close liaison among OECD member states and aid agencies has resulted in a convergence of approaches to the technical aspects of performance measurement. Setting objectives, choosing indicators and reporting are core elements. The extent to which authority is devolved, or the process is made transparent, differs among countries to a greater extent. The key technical features are summarised below.

| <b>Technical element</b>                                            | <b>Issues</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            |
|---------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <i>Analytical structure</i>                                         | <ul style="list-style-type: none"> <li>• Specification of objectives is based on a causal means-end sequence: inputs&gt;activities&gt;outputs&gt;outcomes&gt;impact.</li> <li>• The preferred structure for analysing objectives is the logical framework because it includes comprehensive treatment of risks and structured performance indicators.</li> <li>• Problems of holding managers accountable for outcomes and impact objectives means that many systems are stronger at output measurement.</li> <li>• The causal framework does not explicitly take account of different stakeholder perspectives.</li> <li>• Objectives and indicators need to be redefined for operational management levels.</li> </ul> |
| <i>Performance indicators</i>                                       | <ul style="list-style-type: none"> <li>• Simple indicators are the most effective, with a Q - quantity; Q - quality; and T - timing specification.</li> <li>• Aid agencies have produced extensive technical guidelines on choice of indicators.</li> <li>• Benchmarking permits comparisons of performance with targets or other organisations.</li> <li>• To be useful for high-level decision-making results need to be aggregated, often by 'rating' performance.</li> <li>• Measurement, especially for indicators of outcomes and impact, needs to be carefully planned to be cost-effective.</li> </ul>                                                                                                           |
| <i>Responsibility, performance contracting &amp; accountability</i> | <ul style="list-style-type: none"> <li>• Organisations minimise use of indicators by distinguishing between operational indicators for managers and key indicators to report to higher authority.</li> <li>• Performance contracting rewards organisations and individuals for achieving objectives.</li> <li>• A combination of published standards, linking performance to goals and pay, and reporting to parliament bring accountability.</li> </ul>                                                                                                                                                                                                                                                                 |
| <i>Resource flexibility</i>                                         | <ul style="list-style-type: none"> <li>• Flexible procedures for managing resources including lump-sum budgeting, carry forward, user charging and revenue retention, to give managers freedom.</li> </ul>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               |
| <i>Review, evaluation and transparency</i>                          | <ul style="list-style-type: none"> <li>• Combinations of client satisfaction surveys, value for money auditing and evaluation studies.</li> </ul>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        |
| <i>Reporting and publishing</i>                                     | <ul style="list-style-type: none"> <li>• Publication of results and reporting to parliament.</li> </ul>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |

What distinguishes performance measurement from previous techniques is a more holistic view of public sector management. Systems take account of the wider political and strategic environment; the management of policy and executive functions; the accountability of personnel; the technical problems of defining indicators of performance; and the need for transparent dealings with stakeholders and consumers. These are the elements which have come together in the OECD states. Success has come from a balanced combination of factors, all of which depend on a firm resolve by the government. This poses a challenge for development agencies wishing to improve performance through performance measurement. As this report shows, in those settings where it has been effective, performance measurement has been designed as part of a wider system of public sector management. Central to this is the process of expenditure management.

### 3. OECD country experience

For this study, visits were made to public sector agencies in Australia and New Zealand, leading countries in the introduction of reforms. Additional comparative material comes from an OECD review of ten member states (PUMA 1996b) which shows the range of different approaches countries have adopted. Management and internal improvement receive more attention in Australia, Denmark, Finland, the Netherlands, Sweden and the United States. Accountability and control are emphasised in France, New Zealand, the United Kingdom and also Australia. Savings receives priority

in Canada, but also Finland, New Zealand, the United Kingdom and the United States. These differences can be important for UNDP in understanding different stakeholder concerns.

The PUMA study notes that the content of performance measurement systems depends on the philosophy of change. Governments place emphasis on different measures: New Zealand on outputs, Australia and the United States on outcomes, Denmark on client surveys for customer satisfaction, and others such as the United Kingdom on financial results or on producer determined measures of service quality. These differences reflect in part the state's domestic culture. Experience has shown that new departments concentrate on tangible goods and services first, followed by person-related services and then the least tangible services such as policy advice or research. The study concludes that it is difficult to compare the relative importance of performance measures in the performance management frameworks of member states, or to generalise about the stages of development and integration. The common trend is that measurement is becoming more extensive at more levels and moving from tangibles towards more intangible services.

## **4. Public expenditure management**

Managing for results involves translating the government's development strategy into policy choices that are implemented through either the public or private sector. Managing for results includes building capacity for service delivery, creating incentives that motivate high performance, generating information on results attained and evaluating achievements of strategic goals. Thus, at the heart of managing for results is a set of institutional arrangements that both support and demand good performance.

As users of the logframe know well, fundamental requirements for the successful achievement of outcomes are a reliable flow of finance in line with project plans, and the policy support of the government. Poor fiscal management leads to budget cuts and redirection of spending, and thereby undermines implementation and accountability. Analysis of the strengths and weaknesses of the public expenditure management system has led to an understanding that fiscal performance is linked to a complex set of factors: aggregate fiscal discipline; consensus on strategic prioritisation; as well as technical efficiency of delivery. The relationships among these three levels is what determines performance (Campos and Pradhan 1996).

The reforms introduced by Australia and New Zealand tackle the links between performance measurement and performance management directly, by creating a stable policy and financing environment within which managers can be given flexibility in use of resources, can be held accountable, and need to use performance measurement in order to guide future expenditure priority-setting. The analysis in this report suggests that performance measurement without the accompanying policy and fiscal frameworks is unlikely to succeed.

## **5. Aid agency experience**

Development projects have long turned to the use of indicators to help gauge performance. The experience of the World Bank is well documented and illustrates the rise and fall of attention which indicators have received since the early 1970s.

Three interesting features emerge from an examination of the Bank's work. First, that the focus of advice and procedures was supply-driven. M&E handbooks emphasise technical aspects about defining indicators and collecting data, and say little about using data or about borrower capacity. Secondly, until the most recent work in 1996, no formal methods were used to match indicators to objectives. That changed with the introduction of the logical framework. Third, the focus was primarily on the needs of the Bank for supervision and portfolio management, rather than the management interests of the borrower.

There are striking similarities and interesting differences between the approaches taken by donors. The similarities are, first, a universal commitment to an agency mission or goals as overarching objectives to which activities must contribute, and to which ultimately the agency is to be held accountable by its governing authority. Second, a universal adoption of the analytical structure of the logframe. Third, the importance attached to the role of indicators and the need to establish regular reporting.

The differences relate to the ways in which agencies manage reporting, evaluation, performance assessment, and publication. Thus, for example, the United Kingdom ODA tries to assess project and programme performance against goals derived from the agency's aims in its mission

statement. The World Bank looks at internally-derived assessments of ‘quality at entry’ (the soundness of analysis and design of a new project) and progress towards development objectives judged by rating systems during implementation and after completion. The different approaches reflect the organisational cultures of the agencies.

An important point which needs to be borne in mind when reviewing agency procedures is that there is likely to be a gap between how a system is supposed to work and how it operates in practice. Despite a long-standing use of the logframe internal reports often describe poorly structured project objectives and difficulties experienced by staff members in selecting and applying indicators. Specific examples of *de facto* performance are hard to come by or would breach confidences. Suffice to say that among the organisations visited, it is accepted that performance measurement systems do not live up to their *de jure* standards. The most widely quoted problems relate to the quality of objectives and difficulty of coming up with the ‘right’ indicators, a finding shared by UNDP.

Little quantitative information is available about the costs of performance measurement. Illustrations are given of the start-up activities associated with new procedures and the costs of doing evaluations. But there is nothing in monetary terms.

## 6. Lessons

The reforms which have been investigated in this report reflect a decade of change in managerial culture and practice in the OECD countries and development agencies. The change has been gradual and evolutionary, responding to political pressures and reacting to experience with new systems. An important lesson is that none of the technical issues are pre-eminent. Good performance measurement needs a balanced approach across policy and practice. The aid agencies face the double challenge of introducing effective internal performance management in parallel with sustainable systems in their client countries.

What is outstanding is the need for a clear vision and sense of direction in promoting change. Reform will only succeed if there is determination to see it through. The experience of practitioners interviewed for this study is that performance management is a learning process. There is no end to modification and change in the techniques and procedures. Results stimulate new ideas. Once a learning system has been introduced, the information which comes from that system will itself generate new demands for change.

Important lessons are summarised in the table below.

| Issue                | Lesson                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            |
|----------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <i>Institutional</i> | <ul style="list-style-type: none"> <li>• Review existing systems and learn from past efforts.</li> <li>• Lead from a senior, central office.</li> <li>• Stimulate demand at all levels by identifying potential benefits</li> <li>• Persevere, results will take time.</li> </ul>                                                                                                                                                                                                                                                 |
| <i>Operational</i>   | <ul style="list-style-type: none"> <li>• Involve top management.</li> <li>• Budgetary pressure keeps staff focus on efficiency issues.</li> <li>• Budgetary stability provides the environment in which management can function.</li> <li>• Contracting unites objectives, choice of indicators, devolution of responsibilities and accountability.</li> <li>• Training is needed at start-up and to support methodology development.</li> </ul>                                                                                  |
| <i>Methodology</i>   | <ul style="list-style-type: none"> <li>• Use the logframe to set realistic, specific and measurable objectives.</li> <li>• Performance budgeting improves accountability by linking budgets to results rather than to inputs.</li> <li>• Transparent, published reporting helps promote understanding of the difficulties of outcome accountability.</li> <li>• Auditing and evaluation are essential components of performance management and help tackle the difficulty of measurement between outputs and outcomes.</li> </ul> |

From the wide range of aid agency examples, eight techniques have been selected as good practice:

- the logical framework, to structure objectives;
- analysis of risks, especially between outputs and outcomes, to help manage accountability;
- work on specification of indicators by US AID and the World Bank;
- performance analysis, a) structured supervision monitoring by the World Bank; and b) assessment against policy aims, undertaken by ODA;
- introduction of output-to-purpose reviews, by ODA
- departmental Portfolio Evaluation Plans, adopted by the Australian Public Service;
- surveys of customer satisfaction, exemplified by the UK Citizen's Charter; and,
- linking performance to resource allocation, the US AID Results Report and Resource Request (R4).

## 7. Conclusions and recommendations

Public sector management reform brings together elements which include clear and visible policy commitments; agreement over budget priority settings; and technical efficiency. The policy commitment means that the government is determined to carry out the actions agreed. Prioritisation means that the planned resources will be available. And technical efficiency means that within this policy-affirmed and resource-secure environment, performance measurement can help and influence management. This reformed environment is the principle difference between the apparent success seen in the OECD states and the poor standing of monitoring and evaluation in development projects. The measurement techniques employed in other respects are largely the same.

Even the most innovative among the aid donors has not tried to match these broader systemic changes introduced in the OECD bureaucracies. One basic dilemma is that aid agencies are dependent on results from client countries. Systemic, performance management would need to be introduced by the client administrations. What this study has done, is identify this central issue of whether performance measurement can be successfully implemented without a supporting institutional framework.

To the extent that performance **measurement** is a goal there is sufficient evidence that the key elements are well known to donors and are already carried out to some extent. The technical features of performance measurement can be implemented in the context of the lessons set out above. But in so many instances they have failed, owing to weaknesses in how the systems are used rather than what its components are. They reflect the missing link between the measurement procedures and the way in which information is used - the management process.

The greater challenge is performance management at the country level. Here, there is a need for a range of strategies depending on the country situation:

- a) **Full-scale public sector management support.**
- b) **Sectoral programme support.**
- c) ***Ad hoc*, project-based support.**

The situation under b) and c) is less than satisfactory, given that much of the argument in this report has been to stress the importance of comprehensive change. But careful application of fiscal discipline, accountability and transparency offers scope for improvement.

The entry point for the proposed strategy is the analysis of risks during project design. A well-articulated analysis of risks should include the provision of adequate and timely finance, should stress management responsibilities, and government commitment. These necessary features have not had sufficient influence in the past. Donor encouragement can then be used to develop the mechanisms which support accountability in four ways:

- a) First, **reporting and publication**: of project goals and activities; of both donor and domestic budgets and actual expenditure; and of targets and annual performance. Public and transparent reconciliation of expenditure and progress targets is at the heart of performance management.
- b) Second, provide generous support to introduce fully-functioning **output and efficiency** monitoring, closely linked to rigorous financial accounting and administrative reporting.

- c) Third, promote widespread adoption of the use of **client surveys**. Fundamental questions in the majority of social-sector projects are: do the beneficiaries have *access* to, *use* of and *satisfaction* with project services? Many economic projects share similar aims. Customer satisfaction is a pivotal influence on performance management.
- It recognises that services are for people and that perceptions are valid and vital indicators
  - Publication broadens public awareness
  - Customer surveys help reinforce transparency and contribute to future targets
  - From an evaluation perspective, satisfaction surveys offer a technical product that has an immediate impact on management, is relatively low cost and low complexity, and gives a fast turn-around of results compared with impact studies
- d) Fourth, give support for internal evaluation studies, using the example of the Australian portfolio evaluation plans as a model. Combine local contracts to develop capacity with a requirement that results are made publicly available and discussed in publicly accessible meetings wherever possible.

# Performance Measurement

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# **1. Introduction**

## **A. Background and objectives**

UNDP and SIDA, in common with other development agencies, are facing the challenge to show results, and demonstrate efficiency and cost-effectiveness in the delivery of services they provide. They have joined forces to carry out a study on performance measurement.

The purpose of this report is to examine the current state of performance measurement. What exactly is performance measurement; what activities does it involve; which development agencies are using it and in what ways; what lessons can be drawn from their experience; and what are the current best practices?

## **B. Focus of the study**

The concern behind the study is to examine the relationship between performance measurement and performance management. For many years, aid agencies have promoted monitoring, reporting and evaluation systems; attempts to measure the performance of aid programmes. But these systems appear to have rarely achieved their aim of improving the management of aid activities (Coleman 1992). New procedures among agencies may have started to reverse this trend. This study examines interesting recent initiatives.

In parallel with the work by aid agencies has been the adoption of public sector reforms by the governments of OECD member states. These appear to have brought benefits of improved efficiency and effectiveness in the delivery of services - objectives which the aid agencies also share. Participating governments in Australia, New Zealand and the UK claim to have achieved greater control over expenditure, improvements in productivity, more efficient prioritisation of public expenditure, improved department performance and more efficient services to the public. This study examines the main features of the OECD reforms, using selected countries as examples. Lessons are drawn from the experience of both aid and wider public sector agencies in order to identify how aid agencies can introduce performance management in the most effective way.

## **C. Methodology**

This report draws on a number of supporting studies involving visits to development agencies and to departments of national and local governments in OECD countries. The literature about public sector management, and aid monitoring and evaluation is extensive. Specific references are noted throughout the text and a bibliography is included with the references in Annex 1. The consultants also benefited from the experience and advice of a number of colleagues in government departments and aid agencies. Any study which enquires into the management of public organisations is in danger of straying into undigested, internal information. Systems rarely work as well in practice as their designers would hope. This point is examined again in later chapters. The study has benefited from the hands-on experience of the agencies but to preserve confidences, undocumented sources are not always attributed. The countries and agencies visited and the supporting studies are listed at Annex 2. Terms of reference are at Annex 3.

## **D. Concepts and definitions**

Concern about results implies a need to monitor progress and use information to improve performance. The scope of this process includes performance monitoring, performance measurement and performance management. The concept of performance therefore, is a fundamental element. Development activities, in common with most public sector functions, are diverse, and performance is something which has to be defined in specific contexts. But a widely established framework incorporates the dimensions of economy (minimising the cost of resources, having regard to the quality of inputs), efficiency (the relationship between the output of goods or services and the resources used to produce them), and effectiveness (the relationship between the intended results and the actual results of the projects, programmes and services). The practical implications of this framework are explored in a later section.

Performance monitoring establishes and demonstrates accountability; ensures that the services provided meet the needs of the recipients of the services; and enables those providing

the services to have a clear idea of what is expected of them and how well they are doing in achieving their objectives (Jackson and Palmer, 1992). It is a function which needs to be incorporated into management.

Performance monitoring depends upon performance measures. Performance indicators are measures which are used to assess progress towards objectives (World Bank, 1996). Indicators help simplify information about complex processes and are a cornerstone of performance measurement. Their selection, measurement and use are examined later in this report.

If there are performance measures that are monitored systematically, then management can respond to that information. In this way, the notion of performance management arises - management geared to setting targets, reviewing achievements against those targets, and taking any necessary corrective action. In order for targets to have an impact on the organisation, there has to be broad acceptance of the targets and agreement about responsibility for achieving them. Thus, for performance management to be introduced there have to be rules and procedures governing the accountability and assessment of organisations and personnel. The ways in which managers make use of performance indicators; the formal rules of review and evaluation; and the acceptance of accountability, are all aspects which characterise the type of performance measurement system. According to the organisation's mode of operation and the objectives of the system, so these arrangements will differ.

### **E. The importance of performance measurement**

Performance monitoring has long been a concern of development agencies, as part of the project cycle of investment projects. The main thrust of attention has been through arrangements for monitoring and evaluation, described in more detail below. But since the mid-1980s, member states of the OECD have taken the lead and provided the main stimulus and innovation to the search for improved methods for their own public sector activities.

The initial thrust of attention was directed towards expenditure management: cuts to support measures to reduce government deficits, and concern over value for money in the provision of goods and services. That narrow financial orientation was soon overtaken by a broader concern to improve the quality of goods and services, improve management practice and ensure accountability and control. In other words, to redefine how government works. In this sense, performance measurement is another step in a series of initiatives such as management by objectives, PPBS etc.

The concern to OECD governments was to have a system which provides an overview of what is happening, to ensure control is maintained over agencies and to ensure organisations operate in accordance with government policies, priorities and mandates. Performance measurement is intended to support decision-making leading to improved outcomes for society as a whole. In the global environment of diminishing and scarce resources, concerns of efficiency and effectiveness push managers and staff to greater awareness of costs. Competition also brings pressures for learning and performance improvement. These need to be consistent with an organisation's overall policies and stakeholders' and customers' needs.

Critics argue that performance measurement is an impossible goal: that it is inappropriate for non-quantitative aspects such as policy advice, research, or foreign policy; that measurement distorts behaviour, leading to manipulation of targets and data; that indicators result in information overload and are expensive to maintain; that performance information is rarely used for decision-making; and that the rationalist model of informed decision-making is naive and simplistic (Buxell 1996).

But the experience of systems in OECD countries in the nineties answers many of these points. What distinguishes performance measurement from previous techniques is a more holistic view of public sector management. Systems take account of the wider political and strategic environment; the management of policy and executive functions; the accountability of personnel; the technical problems of defining indicators of performance; and the need for transparent dealings with stakeholders and consumers. These are the elements which have come together in the OECD states. Success has come from a balanced combination of factors, all of which depend on a firm resolve by the government. This poses a challenge for development agencies wishing to improve performance through performance

measurement. As this report shows, in those settings where it has been effective, performance measurement has been designed as part of a wider system of public sector management.

## **F. Structure of this report**

The report deals first in Chapter 2, with the key technical issues behind the methods and systems, with a look at ways in which organisations have tackled them. Chapter 3 reviews selected experience of public sector and development agencies to examine the different emphasis that is given. Experience of the search for monitoring indicators in development projects is contrasted with the broader concerns of public sector management, in order to identify the components of a public sector system. Lessons learned are summarised in Chapter 4, followed by a schematic overview of best practice in Chapter 5. The conclusions and recommendations in Chapter 6 consider the practical issues facing UNDP and SIDA. Annex 4 contains a review of experiences at ODA, USAID and the World Bank. Annex 5 contains reports from visits to Australia and New Zealand, plus some illustrations from the UK system.

## **2. Performance measurement methods and systems**

### **A. Introduction**

Close co-ordination among member states of the OECD, and among multilateral and bilateral donors and UN agencies has led to frequent interaction about new initiatives connected with performance measurement. There has emerged a high degree of similarity in the technical approaches that are used. Where differences arise, they tend to reflect contrasting political and administrative philosophies. This chapter reviews the technical aspects of performance measurement, starting with the areas where there is most agreement.

The structure of this chapter reflects the steps involved with performance measurement:

- The analytical structure used to define programme or project objectives and how to achieve them. This includes a discussion of performance concepts such as efficiency.
- Nature and structure of performance indicators, and implications for reporting and measurement.
- The institutional setting in terms of responsibility for managing and reporting, accountability, and resource flexibility.
- Procedures for review and evaluation and the issue of transparency.
- Reporting and publishing results and conclusions.

### **B. Analytical structure**

The analytical structure which acts as the basis for configuring indicators and performance measurement reflects the structure of the logical framework<sup>1</sup> There is a high degree of consistency among aid agencies at the lower level - inputs, activities and outputs. But when it comes to the causal path between the delivery of outputs and ultimate impact, there is a wider spread of interpretation with practical significance for measurement systems. Table 1 summarises the levels and terminology.

The middle column of the table sets out the levels of objectives. Inputs are used to undertake activities which lead to the delivery of outputs. Outputs are the physical goods or services which are provided. They have dimensions of quantity, quality and the extent to which targeted clients are reached. Up to this level of achievement, performance measurement is an internal management process. Its concerns are:

- economy - minimising the cost of resources
- expertise - developing management skills and competencies
- efficiency - cost per unit of output, spending well or doing things right

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<sup>1</sup> For a good introductory exposition, see Coleman, 198?.

- equity - ensuring there is a fair distribution of resources over those targeted or entitled to them
- excellence - the counterbalance to economy and efficiency, ensuring that goods and services reach acceptable levels of quality

Quality may have a technical dimension such as the composition of a food product, or the failure rate of a machine component, or the time to process an application. But for many services, quality may be harder to specify other than by the user of the service. The issue of quality therefore, shifts the focus of attention away from the management process towards client satisfaction.

**Table 1 Hierarchy of objectives**

|                                                                                                                                  | Objective levels            | Performance issues         |
|----------------------------------------------------------------------------------------------------------------------------------|-----------------------------|----------------------------|
| <i>Labour<br/>Capital<br/>Materials<br/>Management</i>                                                                           | <b>INPUTS</b>               | Economy<br>Expertise       |
|                                                                                                                                  | <b>ACTIVITIES</b>           | Efficiency                 |
| <i>Number of units produced<br/>Number of clients serviced<br/>Quality of client targeting<br/>Quality of product or service</i> | <b>OUTPUTS</b>              | Equity<br>Excellence       |
| <i>(Project purpose)<br/>Client reactions<br/>Client satisfaction<br/>Immediate change</i>                                       | <b>OUTCOMES<br/>EFFECTS</b> | Effectiveness              |
| <i>(Project goal)<br/>Economic or social<br/>performance</i>                                                                     | <b>IMPACT</b>               | Effectiveness<br>Relevance |

Source: Adapted from Jackson and Palmer 1992

The outcomes and effects refer to the ways in which clients respond to outputs, the extent to which clients are satisfied with outputs, and the immediate economic or social change which takes place. Impact views the outcome at a higher level and is generally concerned with measures of economic or social performance. The concern of performance measurement is effectiveness - a measure of how well the activities and outputs lead to the desired goals. In other words, was the project doing the right thing. Effectiveness includes concern for the longer term and wider outcomes - the impact. But impact goes beyond the routine scope of performance management, mainly owing to the time-scale under which changes occur and the problems of establishing a simple causal link. Impact depends on supporting external factors (the 'Critical Assumptions' in the logframe) and would take into account other considerations such as relevance and sustainability.

Measures of outcomes and impact must include response from clients. Performance measurement therefore moves away from internal management to the external environment. This has implications for indicators and data collection, and for the extent to which managers can be held responsible.

The analytical structure described above is best known among aid agencies in the format of the logical framework. The logical framework, or logframe, is a project design analysis tool which is used to structure project resources and activities to produce verifiable outputs which contribute to the project goal. The logframe uses a matrix layout to display the project design, assess risks which may affect implementation, and identify indicators and their means of measurement, for monitoring. The logframe was developed by USAID during the late 1960s. It has since been adopted as a planning and management tool by a large number of

other agencies including ADB, DANIDA, the European Commission Directorate General for Development (DG VIII), GTZ, ILO, NORAD, ODA, SIDA, and UNIDO.

A strength of the logframe is that the logical structure generates a causal means-end analysis of how project resources contribute to goals. It is then possible to structure indicators according to that process. A hierarchy of objectives is categorised generically as a series of *states*: inputs, outputs, purpose and goal. But different users have adopted modified terminology for their own purposes, one of the most common being the addition of a row of activities (a *process* rather than a state, Wiggins and Shields 1995); outputs is sometimes referred to as results (EC).

To be used effectively the logframe needs to be prepared in collaboration with project stakeholders. The process is time-consuming and requires consummate negotiating skills. All too often agency staff prepare the logframe as a routine formality prior to project submission, so the framework and its indicators never gain genuine ownership, and the logic of the project, with all its implications for management, is not tested in debate.

The logframe is the main tool by which development agencies draw up specifications for monitoring. It is actively used by the UK's ODA and by the European Commission, which has expanded its use from development activities financed by the European Development Fund, to the technical assistance programmes in Eastern Europe and Central Asia. Other donors such as SIDA draw more on the concept of the hierarchy of objectives than use the logframe as a design tool.

But however the logframe is used, its focus is still very narrow. The logframe assumes that necessary resources will be provided, hence the financial environment under which the project operates is usually not reflected in indicators. The hierarchy of objectives does not necessarily match the organisational structure of the implementing authority, so separate specifications are needed to match indicators to responsibility centres and reporting. The vertical orientation of objectives places emphasis on higher-order goals which can be hard to measure and hold managers accountable for, and the analysis of risks is commonly weak, with little formal assessment of the extent to which project goals are owned by the implementing agency.

## **1. The hierarchy problem**

The specification of outcomes and impact is complicated because the causal means-end sequence does not always fit easily into the simple hierarchy described above. Take a simple example of agricultural extension. The sequence between the activity of delivering an efficient farmer service, and the goal of increasing farm incomes, is lengthy.

**Activity:** *Efficient delivery of technical advice to targeted farmers*

Service prepares and delivers technical messages and demonstrations

Farmers attend advisory sessions and farm demonstrations

Farmers agree advice responds to their needs

Farmers gain new knowledge

Farmers change attitude

Farmers gain new skills

Farmers change practice to try new techniques or technology

Farmers evaluate results from new techniques or technology

Farmers voluntarily re-adopt

Changes generate increased physical product

Farm incomes rise

Welfare of farming community increases

**Goal:** *To alleviate poverty in designated area*

At which levels in this sequence should Output, Outcome and Goal be specified? Is the output the delivery of technical messages and demonstrations? If so, then is the extension manager responsible for the relevance of those measures to the farmers? What is the outcome

of the project, is it the change in farmers' knowledge, or is it adoption? Or is the outcome the change in physical production, or the farm income?

With each successive step in the sequence the desired response by the client becomes less under the control of the extension manager and more subject to external factors, or risks. To claim that a manager could be held responsible only for delivering extension messages and demonstrations is unsatisfactory because that achievement is far from the goal. But to hold an extension manager accountable for changes in farm incomes, which depend on prices, and the effect of the natural environment on production, is equally unreasonable. Indicators can be defined for each stage. But measurement of adoption is statistically a more straightforward task than measurement of change in farm income.

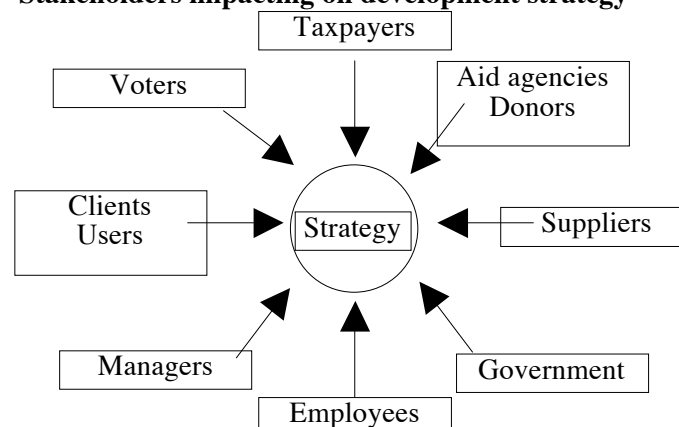
It is more accurate to think of a continuum of states between outputs and outcomes with dimensions of controllability and intrinsic value. At one extreme are simple outputs, highly controllable, but of low intrinsic value in terms of goal requirements. At the other extreme are states with high intrinsic value but low controllability (PUMA 1996a). The challenge for successful performance management is to choose indicators which are balanced between simple output measures and less controllable (and measurable) outcomes. In the example above, farmer voluntary re-adoption and changes in physical product would satisfy that aim.

As the means-end sequence reduces in controllability, so the influence of external factors becomes more prominent. Under the logframe methodology risks are explicitly identified at each stage in the hierarchy. Major risks are incorporated into project design and lesser risks are assessed and expressed as critical assumptions - a positive statement that they will act in support of the goal (Tacis 1996, World Bank 1996). Clearly, to the extent that performance management is concerned with progress towards goals, measurement of risks will be a necessary feature. Careful specification of risks makes it more practical for managers to be held accountable for outcomes, *ceteris paribus*.

## 2. The stakeholder problem

The analytical framework postulates a hierarchical means-end relationship. Performance management has to service the needs of stakeholders, many of whom will have narrow or partial interests in the measures of performance. The range of indicators therefore, needs to be sufficiently comprehensive to satisfy the demands of a wide group of stakeholders. Figure 1 illustrates the range of stakeholders. Not all stakeholders will be interested in every aspect of an organisation's performance. The question arises however, about the extent to which some or all indicators should be available to all stakeholders. This issue is dealt with in a later section. Organisations which use the logical framework as a planning tool to design performance measurement need to be aware that the logframe does not take into account either organisational structure or the demands of different stakeholders. Of particular importance is the need to distinguish between the perspective of an aid donor or technical agency and that of the national implementing agency.

**Figure 1 Stakeholders impacting on development strategy**



Source: Adapted from Jackson and Palmer 1992

Performance management tends to assume a common interest, in the sense that judgement of performance: economy, efficiency, equity and effectiveness, is shared by all

stakeholders. In practical terms this implies that the genuine needs of clients are recognised by policymakers, translated into cost-effective actions which meet with client satisfaction, and result in the desired policy outcome. In a situation where clients are simultaneously taxpayers and voters, they have a stake in the appropriateness of policy, the efficiency of implementation and the impact. In practice, this congruency may not always occur, especially in the case of developing countries with high levels of aid funding, low tax bases, and rudimentary democratic processes. The ability of consumers to influence policy and the concern of both governments and consumers about cost-efficiency, may be less than the performance management model assumes. In such circumstances, the logframe style of analysis may result in indicators which are unimportant to some key stakeholders. If the indicators are not thought to be important, the flow of information is less likely to result in necessary action.

### **3. Management levels**

A second limitation to the hierarchy of objectives concerns the level of management to which the indicators and targets apply. Each level of objectives reflects the point of view of different levels of management and type of stakeholder. Thus, for example, the timely and efficient implementation of activities would be the prime responsibility of a section or unit head; the achievement of outputs might be the concern of a department or the project manager; the achievement of outcomes is the focus of the client or consumer; and the impact is the interest of policymakers.

The point of view reflected in the hierarchy of objectives (World Bank 1996) needs to be developed through a management implementation plan, into objectives, indicators and targets for each level of management. Thus, in the farmer extension example above, teams providing demonstrations need individual targets and measures of efficiency; if the project covers a large area, district or regional managers would need targets and methods of summary analysis for comparing team performance; and nationally, analysis would need to facilitate comparison of costs and performance.

As the level of management changes so also the level of detail and nature of indicators changes. A field manager needs details of individual workers, on a weekly or even daily basis. District or intermediate managers would require more summarised data and might need averages or other measures of comparison. The nature of indicators may also change. At field level, the priority would be for indicators of resources and costs, and activity milestones; project management looks for efficiency ratios and output targets; policy makers are concerned with broad aggregates of social and economic performance.

The complexity illustrated here has to be dealt with in practical terms. Indicators quoted for a project or organisation as a whole have to be supported by internal procedures and analysis which allow the agency overall to be reported. This is potentially a difficult task which requires detailed planning. Some writers have advocated the use of nested logframes, whereby interlinked logframes are developed for national, sectoral, programme, project and output levels (CEC 1993, Shields, pers. comm.), so far as the authors of this study are aware, this approach is not currently being used by any agencies.

## **C. Indicators and measurement**

### **1. Indicators - source and design**

Within development agencies the focus of performance monitoring has long been on the selection of indicators. Summary material from different perspectives can be found in Britan 1991, Sida 1995, and World Bank 1996. The World Bank publication differs from the others by including eighteen volumes of supporting technical annexes which describe structural approaches to selecting indicators, and give illustrations. The sectors covered are:

|                        |                            |
|------------------------|----------------------------|
| Agriculture            | Poverty reduction          |
| Economic adjustment    | Power                      |
| Education              | Private sector development |
| Environment            | Public sector management   |
| Financial sector       | Technical assistance       |
| Housing                | Telecommunications         |
| Industry and mining    | Transport                  |
| Oil and gas            | Urban development          |
| Population, health and | Water and wastewater       |

Most of the sectors follow a typology of indicators based on a hierarchy of objectives, and provide a menu of recommended key indicators and examples of indicators used on Bank projects. The volume of material is substantial and the main report places emphasis on being selective, the need for indicators to be customised by the borrower, and carefully adjusted to the specific objectives of a project.

Menu lists carry the unavoidable risk of seeming to emphasise the large number of potential measures. The temptation to 'add one more' is hard to overcome. There is no hard and fast answer to the question 'How many indicators are required?'. As a general rule, more than six measures for a specific activity may be too many, fewer than three might not be enough. There needs to be sufficient to provide a cross-check, especially in the situation where some indicators show desired performance and others show the opposite.

## **2. What makes a good indicator?**

The search for better indicators has prompted organisations to devise checklists of characteristics against which the quality of indicators can be judged. A popular code is SMART: specific, measurable, attainable, relevant, and trackable (ITAD 1996). The World Bank suggests that indicators should be relevant, selective (not too many), practical (for borrower ownership and data collection), should include intermediate and leading indicators for early warning, and allow for both quantitative measurement and qualitative indicators.

In a review of performance measurement, the OECD concluded that measures or indicators should be:

- homogeneous
- not be influenced by factors other than the performance being evaluated
- collectable at reasonable cost
- in the case of multi-output organisations the measure should reflect as much as possible of the activity
- not have dysfunctional consequences if pursued by management (PUMA 1994a)

The prime role of the indicator is to act as a means of comparing what is planned to happen with what actually happens. To ensure objectivity in that comparison, guidance is given that indicators should have a QQT specification: quantity, quality and time. In other words, how much or how many; what specification; and by what date (CEC 1993).

Advice such as this reinforces the view that indicators are essentially quantitative and inappropriate for non-quantifiable activities such as policy advice, or research, or participation. But experience from New Zealand in recent years shows that by careful definition standards of performance can be determined, for example for policy:

1. quantity - completing the priority projects in the work programme
2. coverage - providing comprehensive advice
3. quality - providing individual pieces of advice of a high quality as defined by
  - clarity of purpose
  - inherent logic
  - accuracy
  - adequate range of options
  - adequate consultation
  - practicality of implementation
  - effective presentation
4. time - meeting the reporting deadlines for projects
5. cost - performed within the agreed budget (PUMA 1994b).

## **3. Benchmarking**

Once a performance measure is calculated it must be evaluated. There are four possible bases of comparison:

- What the organisation has achieved in the past.
- What other comparable organisations are achieving.
- What was targeted or budgeted for.
- What could reasonably have been achieved in the circumstances.

The last category is the most suitable, since it takes into account the most recent events and situation. But because of the difficulty of determining what is reasonable, the budgeted or targeted figure is usually taken as a surrogate for this. Comparison with other organisations is similar to comparisons of best practice and also known as benchmarking. It has an established following in the private sector where similarity of products and a common drive for profitability simplify the process (Camp 1989). The World Bank has identified international comparisons as a follow-on step from the current work on indicators. Two studies by OECD have concluded that benchmarking is beneficial and allows organisations to develop a better understanding of how they produce outputs and how those outputs link with outcomes. It can be a driver of cultural change, allowing organisations to recognise that they are not unique and that new ideas can be found in other organisations which seem to be very different (PUMA 1994b, PUMA 1996a).

There may be scope for benchmarking as a performance tool for comparison between units within a country setting (local or regional governments, hospitals, schools) or for management within an aid agency (regional desks). Country comparisons, where cultural and other differences complicate activities, are less likely to be successful. In general:

- Organisations with highly diverse user groups where 'products' are less standardised are unlikely to be easy places for benchmarking.
- The more competition facing an organisation and the more its revenue is directly related to its outputs the more receptive it is likely to be to benchmarking.
- The less well the process of achieving outcomes is understood the harder it will be to select processes for benchmarking.
- The higher the technicity of a service the more relevant functional benchmarking would appear to become (PUMA 1994b).

Benchmarking requires an active and functioning system of performance measurement so would not be relevant in situations where such systems are still being introduced.

#### **4. The aggregation problem**

For agencies charged with supervising a diverse programme of activities the problem of how to compare performance among projects with different objectives or in different sectors will arise. Even within individual projects there may be diverse components, such as road construction, institution building, healthcare, or agricultural production, where it is desirable to compare performance. The problem is that indicators of road traffic, institutional performance, infant mortality or crop yield are mutually incompatible. They cannot be summed or averaged in any meaningful way.

For the management of sectoral programmes, aggregation across sectors may be of no consequence. The challenge then is to ensure that projects or activities contribute to common sectoral goals. Aid agencies often mirror this process by setting sectoral strategies (e.g. UNDP Country Strategy Note; EC Country Strategy Review; World Bank Country Assistance Strategy). But agencies which are responsible for managing a portfolio of projects still require a means of assessing the strength of that portfolio.

There is a tendency for indicators used by senior management to have a strong financial element, encompassing total expenditure and efficiency measures such as cost per unit of service delivery or unit of output. Financial measures simplify aggregation or comparison, because they have a common denominator. But still there are fundamental differences between sectors.

The most common solution is to adopt a rating system for assessing performance. The use of ratings in effect *normalises* performance indicators by changing the nature of the information being presented. Typical ratings assess the extent to which projects are likely to reach their objectives: the values may be as simple as: *Completely*; *To a large extent*; *To a limited extent*; or *Not at all*. Thus, a community development project, with an objective to establish a self-financing credit scheme, can be compared with a primary health care vaccination programme as they can both be rated for the likelihood of achieving their objectives (OECD 1996).

Ratings change the nature of information derived from indicators and allow wider sources of information to be taken into account by managers (WFP 1990). Ratings bring other

challenges, however. It can be difficult to standardise the judgement of managers who do the ratings. Potential performance may vary between sectors and between countries. Standards expected in a middle income country may be more demanding than could be set in a low income country. In order to ensure comparability, it may be necessary to introduce some form of independent scrutiny. For example, performance ratings given to World Bank projects during implementation are later re-assessed after implementation is completed, by the Operations Evaluation Department (See Annex 4).

## **5. Measurement**

The utility of indicators hinges to a large extent on the ability of the organisation to collect and analyse the data. Reviews of OECD countries have shown that this can be a stumbling block. Countries have reported inexperience of officials; lack of capability of accounting staff trained in 'traditional' methods; resistance to time-recording from staff and staff unions; complexity in comprehending and integrating a large number of data sources; and lack of interest by political users and top level managers (PUMA 1994a). This latter criticism is particularly concerning, but it does exemplify the problem that almost any form of performance measurement does require the ability to digest and use the data that are generated.

The situation is more complex in development projects where the stimulus may be coming from the aid donor but the work falls on the government agency. A review of monitoring and evaluation in the World Bank concluded that Bank-funded projects did not make adequate arrangements to support data collection for monitoring systems (World Bank 1995). Specific criticism was a failure to take into account the statistical complexity of outcome indicators and a lack of plans for institutional strengthening.

The experience of trying to promote the use of indicators is at the centre of performance measurement yet is perhaps the most elaborate and intimidating area. During interviews carried out for this study, a frequent comment was that task managers or desk officers in aid agencies experienced more difficulties in selecting indicators than in other aspects of project monitoring. The range of advice and aspects to be taken into account is extensive. In the view of the authors of this report, there is a danger that over-emphasis on indicators is focusing attention on performance *measurement* and away from the real aim of performance *management*. Management encompasses wider concerns of how rules and procedures governing the accountability and assessment of organisations are determined. The next section introduces these aspects.

### **D. Delegation, accountability and control**

The changes in procedures which have been introduced to support performance management are based on a philosophy of delegating more authority in return for improved performance - 'let the manager manage' is the catch phrase (Annex 5). This section reviews the nature of change under four headings: responsibility and organisational change; performance contracting; accountability; and resource flexibility.

#### **1. Responsibility and organisational change**

Innovations to introduce results-oriented management have brought with them a need for organisational change. The move is towards decentralised decision-making. Decentralisation can be to a division, department or a project. The purpose is to create responsibility centres, often allied to cost or profit centres, through which performance can be managed. The downward delegation of responsibility is matched by a corresponding need for responsibility reporting. Senior managers need information to judge the outcomes of decentralised decisions. Responsibility reporting is important if decentralisation is to be effective. Senior managers review key performance indicators for efficiency and effectiveness. Variances (differences between planned and actual values) are then examined and accounted for. It is therefore logical that lower level managers can only be held responsible for variances over which they have some control. A diagram of responsibility reporting is shown in Figure 2.

**Box 1: Decentralisation or devolution?**

An Australian review made the following distinction between devolution and decentralisation:

**Devolution** is the transfer of decision-making capacity from higher levels in the organisation to lower levels, i.e. it is about who is best placed in an organisation to make decisions.

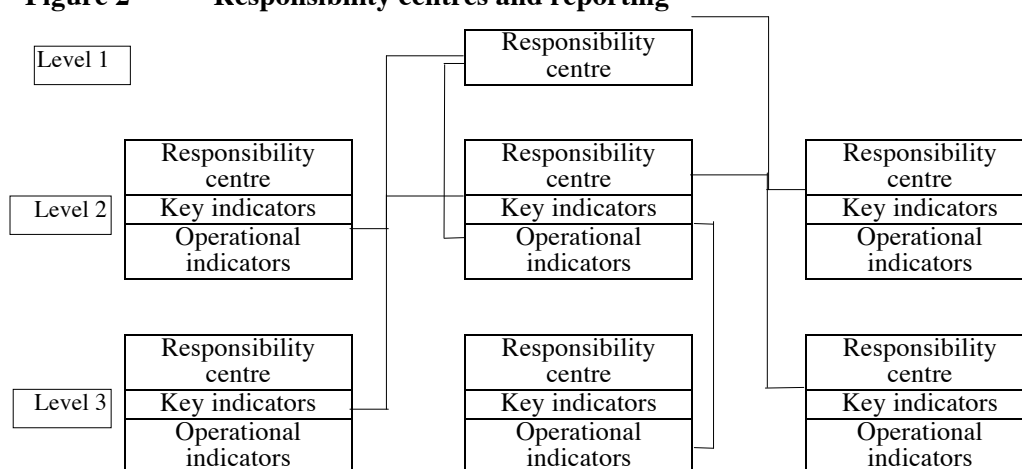
**Decentralisation** is the redistribution of functions or tasks from central units in the organisation to more widely dispersed units, i.e. it is about where in an organisation functions are best carried out.

The Australian Department of Prime Minister and Cabinet experienced confusion between the two. Many administrative functions, such as personnel, were decentralised along with devolution of authority for those functions. The department found that decentralisation of administrative functions led to inefficiencies and loss of expertise in these functions by central government. Subsequently the department shifted its approach to devolving authority over personnel decisions to line management, while retaining administration as a centralised function.

Greater devolution of responsibility can occur without any decentralisation of functions.

Source: Reported in GAO 1995

**Figure 2 Responsibility centres and reporting**



Source: Adapted from Jackson and Palmer 1992

The responsibility monitoring illustrated in Figure 2 would consist of a mixture of measures; summation from lower units to higher units, averaging, or cost/ratio performance. The nature of the indicators is likely to change with higher levels of the management hierarchy as described in the previous section.

Indicators are intended to support performance management and so must be designed for the manager at each location and level in the hierarchy, and with a logical process of aggregation to higher levels. In the diagram there is a distinction between *operational* indicators for managers, and *key* indicators which highlight important issues and are reported to higher levels. Aggregation needs to be planned carefully because poor performance at unit level can be lost in the averaging or totalling. The elegant simplicity of the logframe as a design tool can result in insufficient attention being paid to implications of the management structure.

At higher management levels the number of indicators is likely to reduce, and the nature change away from simple planned vs. actual towards comparators of performance, and cost-based measures. It is at the higher levels that benchmark comparisons are likely to be effective. Examples for agencies would be the time desk officers or administrators take to process tasks; the difference between planned and actual implementation periods; the proportion of projects achieving outcomes rated as satisfactory or better.

The move into decentralisation is closely linked to the introduction of performance contracting. Any system which involves a performance responsibility brings the critical question of the type of measure the performance will be based on: an output or an outcome.

## 2. Performance contracting

An earlier section identified the 'hierarchy' problem in the logframe, the difficulty of deciding exactly at what levels to specify outputs and outcomes. One of most important

applications of this problem is for accountability and performance contracting. Outputs are the goods and services produced by an organisation. Outcomes are the consequences arising from those goods and services. The higher the level of outcome the less control the organisation has and the more results will be affected by external factors or risks.

The dilemma is that organisations have a high degree of control over outputs and therefore cannot easily make excuses for failing to produce the agreed targets. As a result, the government will have fewer problems holding an organisation accountable. Because an organisation has only partial control over the achievement of an outcome it is harder for the government to hold it accountable.

But output-based contracts might fail to encourage organisations to do what the government really wants. Returning to the earlier example on agricultural extension, giving advice and holding demonstrations is easy to achieve without stimulating any farmer adoption. Because outputs are at a low level, contracts may be forced into prescribing wide-ranging specifications of what is essentially management detail. Furthermore, there is no incentive for the organisation to review critically its outputs and discard those which are non-relevant to the outcomes or goal.

If the organisation has a high degree of control, or potential control, over the factors affecting outcomes, an outcome-based contract has the potential to stimulate the organisation and circumvent problems which can arise with output-contracting. But if the outcome is not sufficiently under the organisation's control the organisation will not be truly accountable and the outcome target may not motivate the agency. This is a particular dilemma with public-sector operations where outcomes can be complex with many contributing factors. It is particularly relevant for development projects where the causal path between intervention and impact can be long and complex.

New Zealand has used output contracting whereas Australia and some other countries have tried outcome contracting (see Annex 5). Studies suggest that outcome contracts are more likely to be appropriate when:

- the outcomes that the government wants are easily defined and measured;
- the agency has some significant degree of control over the outcomes;
- the agency knows more than the government about the effects of outputs on outcomes; and,
- the agency is able to bear the risks involved (PUMA 1996a).

### **3. Accountability**

Performance contracting is part of a set of actions which aim to improve accountability. Performance management only has force if the targets under question are tied in to standards of behaviour and reporting. That is linked to accountability. Table 3 summarises approaches to reinforcing accountability for performance in Australia, Canada, New Zealand and the United Kingdom, from GAO 1995. The following sections describe the material in the table. The approach to accountability has been through a mixture of actions:

#### **a) Publishing performance standards**

The UK and Canada publish service standards which the public can expect from government services and include the right to compensation in some instances when those standards are not reached. Annual reports provide information on performance against standards. Examples from the UK Citizen's Charter are given in Annex 5.

#### **b) Performance agreements linking individual performance to organisational goals**

The four countries introduced top-down performance agreements between the political leaders of departments and their top civil service managers to introduce a sense of personal responsibility for performance and to reinforce the connection between individual performance and organisation mission and goals. Chief executives are said to be acutely aware of their visible personal responsibility and accountability for the success of their departments. In addition, performance agreements are being introduced between lower levels of management and staff.

#### **c) Linking pay**

The pay and tenure of chief executives in UK and New Zealand is linked to the achievement of the objectives in the performance agreement.

**d) Managerial accountability linked to areas of control**

One major area has been the definition of performance targets linked to areas which the chief executive could control. Both New Zealand and UK have concentrated on output targets. Australia has tried to use outcome targets. In the UK and New Zealand organisational changes have separated the development and evaluation of policy from service delivery.

**e) Increased accountability to parliament**

Departments in each of the four countries are required to report performance information annually to their parliaments along with budget and expenditure information. Initial use of the information was disappointing. Studies suggest that institutional constraints such as the lack of staff, expertise and time to evaluate all the information precluded the effective use of reports. Simplicity, presentation style and focus on significant issues were all identified as areas for improvement.

**Table 3      Approaches to reinforcing accountability for performance in four countries**

| Country        | Approaches                                                                                                                         |                                                                                   |                                                                  |                                                                                                                                                                                                    |             |                                                                                                                                 |                            |
|----------------|------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------|------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------|---------------------------------------------------------------------------------------------------------------------------------|----------------------------|
|                | Service standards                                                                                                                  |                                                                                   | Performance agreements                                           |                                                                                                                                                                                                    |             | Performance reports                                                                                                             |                            |
|                | Service principles                                                                                                                 | Types of standard                                                                 | Parties involved                                                 | Purpose                                                                                                                                                                                            | Pay linkage | Content                                                                                                                         | Provided to                |
| Australia      | Did not take this approach. Indicators report quality of service where appropriate                                                 |                                                                                   | All senior and mid-level managers.                               | Related individual performance to the achievement of the department's goals and objectives.                                                                                                        | Yes         | Programme objectives in terms of outputs, outcomes and costs, and an assessment of whether those objectives have been achieved. | Parliament and the public. |
| Canada         | Service description, quality pledges, delivery targets, complaint mechanisms and costs. Performance information published.         | Timeliness, accuracy, reliability, responsiveness, coverage, client satisfaction. | Secretary of the Treasury Board and department deputy ministers. | Detailed a limited number of key management issues for which the deputy minister would be held accountable.                                                                                        | Yes         | Program objectives, performance against targets, and program costs.                                                             | Parliament and the public. |
| New Zealand    | Did not take this approach. Departments set targets for quality of service and report indicators.                                  |                                                                                   | Department minister and department chief executive.              | Detailed the chief executive's key management objectives, responsibility for meeting the department's output performance targets, and obligation to support government-wide concerns and policies. | Yes         | Quantity, quality and cost of outputs against targets.                                                                          | Parliament and the public. |
| United Kingdom | Standards, information and openness, choice and consultation, courtesy and helpfulness, putting things right, and value for money. | Timeliness, accuracy, reliability, responsiveness, coverage, client satisfaction. | Department minister and chief executive of an executive agency.  | Outlined specific output and financial performance targets to be achieved by the agency in a given year.                                                                                           | Varied      | Output-oriented and financial performance information against targets.                                                          | Parliament and the public. |

Source: GAO 1995, page 35

#### **4. Resource flexibility**

In parallel with increased accountability for departments achieving performance standards, flexibility has been introduced in the allocation and management of resources.

##### **a) Operating costs**

In order to overcome the problem of central departments micromanaging line functions lump sum operating budgets have been introduced to cover salaries, office space, contracts for services, utilities, administration and minor capital items. Departments are generally free to decide how to allocate that expenditure and there is a trend to delegate lump sums to line managers. Evidence shows that because departments can choose the mix of resources departments tend to allocate efficiency savings to address operating priorities.

##### **b) Efficiency dividend**

As an additional inducement to control costs departments in the UK and Australia are required to return an annual efficiency dividend of 1.25% to 2%. This means a saving of that amount in constant terms. Budgets are projected 3 years in advance and departments are expected to live within those amounts.

##### **c) Carry forward**

In order to overcome the 'spend it or lose it' year-end rush to spend, Australia, Canada and UK permit departments to carry forward funds. In the UK departments have to have a 3 year running cost agreement and satisfactory management planning and control. Common uses identified were ongoing funding for information technology strategies, consultants, surveys and training.

##### **d) User charging**

Departments have implemented user-charging for functions such as property management, audit services, legal services, training, publications and technical advice.

##### **e) Revenue retention**

Traditionally all government fee collection was turned over to the Treasury and departments were funded through annual appropriations. Under the reforms departments collect and retain user fees and use them to fund operations.

##### **f) Competition**

Departments are no longer required to purchase services from central government, such as property, purchasing, accounting and transportation. They are now encouraged to buy from commercial sources.

##### **g) Personnel reform**

The four countries simplified personnel rules and devolved personnel authority from central agencies to departments. The role of the central agency is now to promulgate simplified human resource principles and monitor adherence. The number of job classifications has been reduced and procedures to hire, fire or reassign, simplified.

#### **E. Review and evaluation**

The review of performance is implicit in the concept of performance management. Different approaches have been tried within the OECD. A basic requirement is for departments to report annually. More variation exists in the use of evaluation and the linkages between performance monitoring and audit.

Australia and Canada use programme evaluation and client surveys to help assess effectiveness in achieving desired outcomes. In Australia, each minister is required to prepare a portfolio evaluation plan (PEP) and submit it to the Minister for Finance. Each PEP has a three-year coverage relating to major evaluations and is intended to focus mainly on outcomes and effectiveness. Each programme is required to be evaluated every three to five years. By contrast, New Zealand has given relatively little attention to systematic evaluation (see Annex 5). Evaluation highlights the output-outcomes accountability problem noted above. There is a danger of ministers being wary of being held accountable for outcomes and of selective use of ex-post evaluations to justify proposed expenditure.

A key question concerns the extent to which traditional auditors should examine performance information and the extent to which auditors reports should be made public. Some writers have advocated formal performance audits. The experience in most countries

appears to be mixed, with audit retaining an inspection or overview function of performance results. Box 2 summarises recent OECD approaches.

#### **Box 2: Experience with auditing performance information**

In **Sweden** the new budgetary system requires that all agencies submit yearly reports on the level of target achievement and operational efficiency. The National Audit Bureau audits the assessment conducted by the agencies, including the evaluation of performance described in the reports.

In the **Netherlands**, at the local authority level, external auditors verify performance information presented in annual accounts. Where performance measurement is developed or in question, they comment on the progress of measurement.

In **Canada**, departmental annual reports including performance information are not scrutinised by the Office of the Auditor-General, partly because of concern about the cost of auditing, and partly because of the inadequate and subjective nature of existing performance information. Nevertheless, these reports are based on auditable information. The Auditor-General comments (as a rule) on the lack of good performance information within departments and agencies; once this information improves, he is likely to comment on its appropriateness. The government considers that the certification by senior management of a department or agency is a more appropriate kind of assurance.

In the **United Kingdom**, local authorities are required to prepare and publish a standard set of performance measures as determined by the Audit Commission. This information will be audited.

In **New Zealand**, information on outputs, on which previous budget appropriations have been based, is subject to audit.

Source: GAO 1994a

### **F. Reporting and publishing**

The extent to which performance data should be published is a matter of debate. Some writers see the transparency which comes from publication as an essential element of performance management (see Table 2). Publication of highly visible results creates a powerful incentive for chief executives and senior managers. Many countries point to the value of publication in terms of improved accountability to parliament and the taxpayer and the benefits of transparent administration. Others stress concerns of sensitivity and the dangers of incorrect use of information or ignoring its inherent limitations and of demotivating staff by unfair criticisms. Whatever the arguments for and against, clearly the political neutrality of the figures which are published needs to be established.

Whether or not performance information is published may depend on the role assigned to it. When the control of budgetary resources is strongly stressed and involves the ultimate responsibility of the parliament, and when performance issues are integrated into the budget cycle, then the publication of information logically follows.

OECD members report a wide range of internal uses for performance information. In the United States, the Chief Financial Officers Act requires agencies to prepare audited financial statements and to report on financial performance. The new Government Performance and Results Act requires the development and publication of a wide range of performance measures. The information is primarily used within agencies to improve the management and operation of programmes. Performance measurement can be used on the initiative of individual managers to monitor, at regular intervals, the output of a team, an organisation or part of an agency. This is also done, for example, in the departments of certain 'Prefectures' in France. Such an evaluation is not part of any system.

In France, Norway and the Netherlands, performance results are compared with those of similar entities in the same sector and in Norway and the Netherlands, with private sector services that are in direct competition with the public sector. This is an example of benchmarking. In Norway, results of performance evaluations are published in annual reports and in budget documents and plans though the extent of information selected varies widely.

Australia and the United Kingdom are examples of countries which use performance information more explicitly for external as well as internal purposes. In these countries, information is provided regularly to Parliament and ministers for accountability purposes, and to inform policy decisions; to the general public, to prove 'value for money' to the taxpayer; to the Treasury to determine priorities between programmes; and to government audit bodies to facilitate an independent review of public sector activities.

In Australia, the annual budget document contains extensive programme performance indicators. The results of in-depth programme evaluations are also publicly available. In the United Kingdom, agencies are required to provide, in annual performance agreements with the Minister (which are publicly available) and in their published annual reports, data spanning a number of years, so that comparisons over time can be made.

## **G. Synopsis**

The interchange of ideas and shared experience among member states of the OECD and aid agencies has resulted in similar approaches to the main technical aspects of results orientation. The hierarchy of objectives with its logframe-style terminology is well established. Aid agencies have focused on the importance of indicators and performance measurement whereas governments have looked more widely to include issues of management span, responsibility, accountability, and flexibility in resources; in other words, performance management. But the OECD states were motivated as much by a desire to reform their bureaucracies as by the urgency of achieving results. Aid donors see programme results as the prime aim, with public sector reform an issue only for specialised interventions.

One focus of this present study is to identify lessons which can help both UNDP and SIDA develop improved performance monitoring. There are lessons within the aid community and within the OECD administrations. The following chapters explore some of these in detail. But there may be an underlying lesson from the different standpoints that have been adopted. The broader focus of government reform programmes contrasts markedly with the technical monitoring associated with aid programmes. Attention to management control, accountability, performance contracting and transparency distinguish the OECD experience from aid programmes. The challenge is to identify those aspects of reforms which are necessary for improved performance management and where aid agencies have a legitimate case to press for institutional development in recipient countries. Performance management appears to involve a cultural change, and although it is made up of the technical processes set out in this chapter, the thrust must come from conviction that results matter most. Project design with the logframe and elegant specification of indicators amounts to nought if the clients are not satisfied with the outcomes. Performance management reforms which highlight client knowledge and satisfaction, and a policy environment which responds to client perceptions are vital components. The institutional dimension appears to be an important element of performance measurement arrangements.

## **3. Agencies and activities**

### **A. Development agencies**

Eleven development organisations were contacted in connection with this report: CIDA, EBRD, European Commission, GTZ, IDB, ODA, USAID, UNFPA, UNICEF, the UN department of Administration and Management, and the World Bank. Visits were made to development agencies in Germany, UK, and USA, and to the World Bank. Information gained during the visits was supplemented by reports and documents. Additional material has been made available from a parallel UNDP study<sup>2</sup>. Unlike the domestic systems described in this report, which have been driven by financial constraints or deficits and political philosophy, the development agencies have been responding to pressures to achieve their mandates and objectives, and desires to demonstrate accountability and programme performance.

The experience and current systems of four agencies are presented in Annex 4 to illustrate the contrasting approaches being used. GTZ was an early user of a logframe-style methodology (ZOPP) and has some of the longest experience with performance measurement; ODA has adopted an innovative approach linking project performance to the agency's overall goals; USAID is at the forefront of process development, linking performance to resource management; and the World Bank illustrates a highly structured system of project supervision. The Bank's documented experience with indicators presents a concise picture of the changing focus of attention on performance.

Development projects have long turned to the use of indicators to help gauge performance. The experience of the World Bank illustrates the rise and fall of attention which

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<sup>2</sup> Ingrid Buxell (1996) *untitled report on performance measurement*, OESP, UNDP

indicators have received. The first appearance of indicators in Bank procedures can be traced to a 1974 operational memorandum on project supervision, which gave illustrations and made them an optional requirement. The year 1977 saw recommendations to include monitoring and evaluation in project plans, and by 1979 indicators were mandatory. Momentum appeared to increase with the first Bank Handbook on M&E published in 1981, followed by two substantial volumes for agriculture written jointly by the Bank, IFAD and FAO, published in 1988. But meanwhile, the requirement for performance indicators had been dropped in 1985, amid disillusionment about the utility and quality of the information reported (World Bank 1994).

Concern about deteriorating performance of the Bank's portfolio led to a report - *Effective Implementation: Key to Development Impact* - which was focused by a belief that inadequate attention to monitoring and supervision of projects was a major factor behind that deterioration. The response, set out in a report - *Portfolio Management: Next Steps, a Program of Action* - brought monitoring indicators to centre stage and locked them into new arrangements for project documentation and supervision. In 1996, a comprehensive handbook on Performance Monitoring Indicators was published, supported by eighteen sectoral volumes of indicators and methodology.

Three interesting features emerge from an examination of the Bank's work over this period. First, that the focus of advice and procedures was supply-driven. The various handbooks emphasise technical aspects about defining indicators and collecting data, and say little about using data or about borrower capacity. Secondly, until the most recent work in 1996, no formal methods were used to match indicators to objectives. That changed with the introduction of the logical framework. Third, the focus was primarily on the needs of the Bank for supervision and portfolio management, rather than the management interests of the borrower.

The problem of how to integrate the management procedures of the agency with the management of the recipient country is interesting. The existence of two linked systems distinguishes performance management systems of aid agencies from those of other public bodies which provide a direct service to the client group. This issue is explored in the conclusions to this report.

The approaches taken by the consulted donors are summarised in Table ZZ. There are striking similarities and interesting differences. The similarities are, first, a universal commitment to an agency mission or goals as over-arching objectives to which activities must contribute, and to which ultimately the agency is to be held accountable by its governing authority. Second, a universal adoption of the analytical structure of the logframe. Until 1996 the World Bank was a notable exception, but the Bank has joined other agencies by using this tool to assist project design. Third, the importance attached to the role of indicators and the need to establish regular reporting.

The differences relate to the ways in which agencies manage reporting, evaluation, performance assessment and publication. Thus, for example, the United Kingdom's ODA tries to assess project and programme performance against goals derived from the agency's aims in its mission statement. The World Bank looks at internally-derived assessments of 'quality at entry' (the soundness of analysis and design of a new project) and progress towards development objectives judged by rating systems during implementation and after completion. The different approaches reflect the organisational cultures of the agencies. Bilateral agencies are likely to have organisations which reflect their domestic government administrations, whereas regional multilaterals such as the European Commission, or international, such as the UN agencies, reflect different characteristics. Matching the system to the culture is something for which it is unlikely there are universal solutions. Thus reporting and using performance measurement remains a bigger challenge than designing what needs to be measured.

An important point which needs to be borne in mind when reviewing agency procedures is that there is likely to be a gap between how a system is supposed to work and how it operates in practice. Despite a long-standing use of the logframe with its provisions for choosing indicators, internal reports often describe poorly structured project objectives and difficulties experienced by staff members in selecting and applying indicators. Indeed, as noted earlier for the World Bank, the widespread concern about how to choose suitable indicators has spawned numerous technical guidelines and manuals. Few agencies have not commissioned studies to improve the quality of indicators. Specific examples of the *de facto*

performance are hard to come by or would breach confidentiality. Suffice to say that among the organisations visited, it is accepted that performance measurement systems do not live up to their *de jure* standards. The most widely quoted problems relate to the quality of objectives and difficulty of coming up with the ‘right’ indicators (an internal finding in UNDP as well, see next section). This point is explored further in the conclusions.

**Table ZZ Key performance measurement issues in five development agencies**

|                                                                         | <b>GTZ</b>                                                           | <b>ODA</b>                                                                     | <b>USAID</b>                                                                                            | <b>World Bank</b>                                                                      | <b>UNDP</b> |
|-------------------------------------------------------------------------|----------------------------------------------------------------------|--------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------|-------------|
| <i>Analytical framework used</i>                                        | ZOPP - logically equivalent to the logframe                          | Logical framework                                                              | Logical framework but more emphasis on objective tree analysis                                          | Logical framework being introduced to support new project documentation in 1997        |             |
| <i>Who prepares logframe or equivalent and indicators</i>               | Formal stage in ZOPP process to prepare Project Planning Matrix      | Desk officer in consultation with technical experts and client representatives |                                                                                                         |                                                                                        |             |
| <i>Is accountability specified for a) outputs; b) outcomes/ purpose</i> |                                                                      |                                                                                |                                                                                                         |                                                                                        |             |
| <i>Are indicators a) project specific; b) predefined</i>                | Developed individually for projects with involvement of target group | Developed individually; indicator examples and guidelines being written        | Pre-specified at levels of agency goals and objectives; individually specified for programme activities | Project specific                                                                       |             |
| <i>Is technical support available for indicators</i>                    |                                                                      | Guidelines being prepared                                                      |                                                                                                         | Developed individually; extensive lists of indicator examples and guidelines available |             |
| <i>Are there procedures for quality control</i>                         |                                                                      |                                                                                |                                                                                                         | Quality Assurance Group assesses quality at entry and quality of supervision           |             |
| <i>Is there a system for summary analysis of programme performance</i>  |                                                                      | Reporting against policy 'markers' derived from ODA Aims                       |                                                                                                         | Formal performance rating systems during implementation and at evaluation              |             |

Blank cells indicate no information reported.

## B. Results-oriented management in UNDP<sup>3</sup>

UNDP has committed itself to becoming a results-oriented organisation. The process of achieving this objective has taken different forms and significant progress is reported. To review how far UNDP has come this part of the report examines briefly a) the systems UNDP uses to assess performance of its programmes and projects; and b) the recent change in management directions which are being defined to renew the organisation.

### 1. Existing systems

UNDP has developed specific management systems to conduct its business. These relate to policy development, programming, financial management, human resources, and external relations. While each of these domains has systems to guide operations, the definition of what constitutes performance in each is weak, resulting in difficulties for managers to determine whether actions support and achieve what is expected. Hence quality management suffers and the organisation struggles to reach standards, satisfy stakeholders and customers and adapt to change. The major new initiatives are:

- A Strategic Framework for Sustainable Human Development with statements of Mission, three Goals, four Thematic Focus Areas (poverty eradication, sustainable livelihoods, gender, environment) five Patterns of Intervention (capacity-building, direct support, programme support, investigation, disaster management) and five Operational Objectives defined in the corporate plans of 1995 and 1996-97.
- Programme performance assessment systems.
- Other diverse individual initiatives.

The **corporate** plan has emerged from a two-year effort at organising UNDP's business into a coherent set of aims, priorities and approaches. The 1995 Annual Report Plan is envisaged to be organised along the structure and substantive area of the corporate plan. Performance measures remain to be defined for the goal and objectives level, and subsequently at other levels of the organisation, specially country offices, and in terms of stakeholder and customer expectations.

UNDP's **programme performance assessment** systems stem from four main functional procedures and include (UNDP 1995):

- A system for designing, monitoring and evaluating individual UNDP-funded projects.
- A system for designing, monitoring and evaluating the UNDP's involvement in national programmes developed by host governments.
- Two approaches for formulating country level objectives and monitoring performance in these terms:
  - G Country Programmes, which cover a five-year period; and,
  - G annual Country Office Management Plans.

Internal reviews have shown that these systems, whilst potentially comprehensive in coverage, do not match their potential. The main issues that have been identified are that: objectives do not match results; cause and effect relationships are not clearly stated; there is no agreed-upon basis for making judgements about impact; and monitoring and reporting have tended to focus on low-level activities and their immediate results.

UNDP's performance reviews at the country level were found to focus almost exclusively on the status of activities and performance in output terms; staff were found to be not adequately equipped to manage and modify the programmes for which they are responsible; and mid-term, terminal and ex-post evaluations have been criticised as not reaching hard-hitting conclusions about effectiveness and impact.

The new initiatives being implemented are expected to tackle objectives and causal relationships, performance indicators, setting targets, data collection and annual performance reviews - a comprehensive approach, very much in line with the technical characteristics outlined earlier in this report.

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<sup>3</sup> This section is based on material prepared under an associated consultancy for OESP by Ingrid Buxell.

## **2. Change management directions**

The efforts to renew UNDP have been the responsibility of the UNDP 2001 endeavours. The most significant achievements of this work are summarised in the Vision Statement and Strategic Objectives issues recently by the Change Management Committee. There exist by now over 200 recommendations for making UNDP a value-driven, effectively managed and responsible organisation.

### **C. OECD member states' experience**

Performance measurement procedures among the OECD nations is part of a wider programme of public sector reform. Public sector management may appear to be a large step away from the concerns of individual development projects. But a project is an attempt to marshal resources around a focused objective, with defined resources. Projects are time-bound whereas recurrent government activities are not, but their relationship to policy and access to resources is directly comparable with non-project activities. Viewed from the perspective of countries which receive aid, performance measurement proposals on a development project need to be compatible with existing procedures for programme management.

Aid donors have a particular responsibility for influence over government expenditure. For example, in Africa it is estimated that donor project assistance finances about 35 percent of total expenditure and 80 percent of capital expenditure (Campos and Pradhan 1996). To the extent that at least some donor finance is not fungible, donor-funded activities directly influence national priorities and bias the ways in which national bureaucracies operate. Thus if aid agencies want recipient countries to manage aid programmes for results, it is necessary for project performance information to be used alongside other information about domestically-funded activities.

In the industrialised countries, the weakness of public bureaucracies was the starting point for public sector reforms. Analysis of public management among OECD states in the 1980s identified a range of problems:

- tasks and responsibilities were ill-defined;
- objectives were not clearly stated and performance measures were not developed;
- short term priorities squeezed out long-term planning
- lines of responsibility and accountability were muddled and confused;
- too much emphasis was on spending money and not enough on getting results;
- co-ordination was often time-consuming and ineffective because there was too much consultation and too little action;
- public officials (managers) were not paid on a performance basis, nor were they necessarily dismissed because of poor performance;
- centralisation destroyed the personal responsibility ethic.

The response was to introduce 'accountable management': setting clear objectives, thinking strategically, generating management information, and measuring and assessing performance in terms of what had actually been achieved. These changes stimulated the need for performance measures and indicators that would become an integral part of public sector management (Jackson and Palmer 1992; GAO 1995).

For this study visits were made to public sector agencies in Australia and New Zealand, leading countries in the introduction of reforms. Additional comparative material comes from a review of ten member states (PUMA 1996b) which shows the range of different approaches countries have adopted. For example, management and internal improvement receive more attention in Australia, Denmark, Finland, the Netherlands, Sweden and the United States. Accountability and control are emphasised in France, New Zealand, the United Kingdom and also Australia. Savings receives priority in Canada, but also Finland, New Zealand, the United Kingdom and the United States. These differences can be important for UNDP in understanding different stakeholder concerns<sup>4</sup>.

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<sup>4</sup> A significant exception among OECD countries is France, where a more cautious approach to public sector reform has taken place. There appears to be a shift towards a performance culture through citizens' charters and systematic results-based management, but limited devolution of authority to

The PUMA study notes that the content of performance measurement systems depends on the philosophy of change. Governments place emphasis on different measures: New Zealand on outputs, Australia and the United States on outcomes, Denmark on client surveys for customer satisfaction, and others such as the United Kingdom on financial results or on producer determined measures of service quality. These differences reflect in part the state's domestic culture. Experience has shown that new departments concentrate on tangible goods and services first, followed by person-related services and then the least tangible services such as policy advice or research. The study concludes that it is difficult to compare the relative importance of performance measures in the performance management frameworks of member states, or to generalise about the stages of development and integration. The common trend is that measurement is becoming more extensive at more levels and moving from tangibles towards more intangible services. A summary of the findings from that study is presented in Table ZZ.

Three interesting points emerge from the summary in the table. First, (like the aid agencies) that the use of indicators is universal, they are a central feature of countries' performance management systems. Second, although many countries believe that rigorous methods based on financial and administrative procedures are important, there is recognition of the need to balance quantitative measures with qualitative measures. This implies the development of new skills and capacity, both to collect and interpret data. Third, although the importance of monitoring effectiveness through outcomes is recognised, it is clear that for many countries the measurement of outputs and efficiency is dominant or better established. This recognition of the difficulty of measuring outcomes should come as no surprise to development workers for whom evaluation has long presented an elusive challenge.

The detailed accounts of findings from visits to New Zealand and Australia, together with illustrations from the UK system are in Annex 5. Principal conclusions from the country visits are reported under lessons learned in Chapter 4.

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managers and only marginal adjustment to human resources and financial management (Laking 1996, 24).

**Table ZZ Key performance measurement issues in OECD countries**

|                                                                                                      | <b>Australia</b>                                                                    | <b>Canada</b>                                                                              | <b>New Zealand</b>                                                               | <b>United Kingdom</b>                                                                                  | <b>United States</b>                                                              |
|------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------|
| <i>Are simple and transparent indicators used as performance measures</i>                            | Indicators used along with more complex measures                                    | Indicators used along with more complex measures                                           |                                                                                  | Focus on a small number of key and simple targets                                                      | General performance goals are accompanied by performance indicators               |
| <i>Are specialised systems used to measure performance</i>                                           | Departments and agencies have developed systems                                     | Emphasis on formal systems using data from financial accounting and administrative systems | Emphasis on formal measurement with full costing of outputs                      |                                                                                                        |                                                                                   |
| <i>Are qualitative, indirect measures used along with quantitative measures</i>                      | Qualitative and quantitative measures are used                                      | More qualitative measures are used, especially in relation to programme evaluation         |                                                                                  | Considered important that targets are objectively measurable, but also a need for qualitative measures |                                                                                   |
| <i>Are measures of processes, activities or new initiatives important in performance measurement</i> |                                                                                     |                                                                                            | Process measures may be part of chief executives' performance agreements         |                                                                                                        |                                                                                   |
| <i>Efficiency: are measures of outputs important in performance measurement</i>                      | Efficiency measures are used, especially where outcome measures are hard to develop | Efficiency measures are widely used                                                        | Emphasis on outputs is a distinctive feature                                     | Clear preference for efficiency and output targets                                                     | Output measures are important especially if they can be linked to outcomes        |
| <i>Effectiveness: are measures of outcomes important in performance measurement</i>                  | The emphasis is on development of outcome measures                                  | Effectiveness measures are used but the quality is variable                                | Some outcome evaluation undertaken related to policy advice and service delivery |                                                                                                        | Focus of the GPRA and performance measurement in general is on strategic outcomes |

Blank cells indicate no information reported.

Source: Adapted from PUMA 1996b

## **D. Public Sector Management**

### **1. Managing for results**

Public sector management is concerned with the capacity of the state to carry out government functions: formulation and implementation of policy, organisation and operation of public institutions, and the efficiency and effectiveness of programmes. Inherent in this is the behaviour of civil servants and the relationships between public agencies, the private sector and civil society. States which have introduced reforms have experimented with new techniques that combine central policy guidance with decentralised operation and accountability - offering greater day-to-day flexibility at lower levels of management, in return for accountable targets and comprehensive reporting.

Performance measurement must support performance management. By itself, performance measurement is just a variation on the theme of reporting. The challenge is for the measured performance to be used to help management decisions. Performance measurement contributes to accountability for the efficient and effective accomplishment of policy goals believed to be in the public interest. Managing for results involves translating the government's development strategy into policy choices that are implemented through either the public or private sector in the form of outputs which in turn lead to outcomes or effects. Managing for results includes building capacity for service delivery, creating incentives that motivate high performance, generating information on results attained and evaluating achievements of strategic goals. Thus, at the heart of managing for results is a set of institutional arrangements that both support and demand good performance. Central to these is financial management.

### **2. Public expenditure management**

As users of the logframe know well, fundamental requirements for the successful achievement of outcomes are a reliable flow of finance in line with project plans, and the policy support of the government. Poor fiscal management leads to budget cuts and redirection of spending, and thereby undermines implementation and accountability. The traditional solution by donors seeking to improve performance has been technical assistance support (United Nations 1992). But analysis of the strengths and weaknesses of the public expenditure management system has led to an understanding that fiscal performance is linked to a complex set of factors: aggregate fiscal discipline; consensus on strategic prioritisation; as well as technical efficiency of delivery. The relationships among these three levels is what determines performance (Campos and Pradhan 1996). Technical assistance, with its emphasis on skills and information systems, lacks the coherence to tackle such a wide span of issues in isolation.

The reforms introduced by Australia and New Zealand tackle the links between performance measurement and performance management directly, by creating a stable policy and financing environment within which managers can be given flexibility in use of resources, can be held accountable, and need to use performance measurement in order to guide future expenditure priority-setting. As the analysis in this section shows, performance measurement without the accompanying policy and fiscal frameworks is unlikely to succeed.

**Table ZZ Key institutional arrangements and expenditure outcomes**

| <i>Institutional arrangements</i>                         | <i>Accountability</i>              | <i>Transparency</i>  |
|-----------------------------------------------------------|------------------------------------|----------------------|
| Aggregate fiscal discipline                               |                                    |                      |
| A. Macro framework and co-ordination mechanisms           | <i>Ex-post</i> reconciliation      | Published            |
| B. Dominance of central ministries                        | Sanctions                          | Made public          |
| C. Formal constraints                                     | Openness of financial markets      | Freedom of the press |
| D. Hard budget constraint                                 |                                    |                      |
| E. Comprehensiveness of budget                            |                                    |                      |
| Prioritisation                                            |                                    |                      |
| A. Forward estimates                                      | Reporting on outcomes              | Published            |
| B. Comprehensiveness of the budget                        | <i>Ex-post</i> evaluations         | Freedom of the press |
| C. Flexibility of line agencies                           | Hard budget constraint             | Made public          |
| D. Breadth of consultations                               | Technical capacity of parliament   | Comprehensible       |
| E. Use of objective criteria                              |                                    |                      |
| Technical efficiency                                      |                                    |                      |
| A. Civil service pay & merit-based recruitment/ promotion | Clarity of purpose/task            | Published            |
| B. Managerial autonomy of line agencies                   | Chief executive tenure             | Made public          |
| C. Predictability of resource flow                        | Financial accounts. audits         | Freedom of the press |
|                                                           | Client surveys                     |                      |
|                                                           | Contestability in service delivery |                      |

Source: Campos and Pradhan (1996)

Table ZZ sets out the key institutional arrangements for sound expenditure management. The table includes reference to the principal mechanisms that encourage adherence to the rules and hold the government and its ministries accountable for performance. The following paragraphs explain the model set out in the table, based on Campos and Pradhan (1996).

**Aggregate fiscal discipline** deals with the problem of reconciling competing demands on the budget by introducing a medium term planning framework, granting central ministries a dominant position to arbitrate over competing claims, and establishing formal constraints on spending and borrowing. It is important that all public expenditures, including extra-budgetary funds, are included in the macroeconomic framework. One way of ensuring that discipline is maintained is by reconciling *ex ante* and *ex post* aggregate spending and making the results public - in other words, publishing budget plans and in later years comparing actual spending with those plans. Open financial markets can act as a disciplining device because investment pressure makes it politically costly for the government to run a large deficit.

**Strategic prioritisation** is fundamentally a political process, but institutional arrangements can improve the quality of information to do this effectively. The most important element is a process which articulates and seeks consensus over strategic outcomes that expenditures seek to achieve. This is a process of open policy debate and 'negotiation' - the process of gaining ownership for sector programmes. Cabinet decision-making needs to be informed by information about planned and actual outcomes. The means of achieving them is best left to line departments, so as long as they can be held accountable for their performance through reconciliation and *ex-post* evaluations. This process is helped if their performance is made transparent. A hard budget constraint (no extra funds to bail-out overspending) increases the incentive for departments to prioritise expenditures. The central agencies and cabinet need be concerned only about aggregate allocations. A credible priority-setting process also requires that all expenditures are incorporated into the budget. Failure to include all expenditure categories is likely to weaken the process of expenditure allocation. This is particularly important for the management of aid funds. Unless all aid-funded expenditure is included in the budget, the aim of a hard constraint can be circumvented.

Prioritisation is fundamentally about creating institutional arrangements to reconcile competing claims and is premised largely on the fact that individuals and groups are willing to behave according to the rules. The analysis of stakeholders in Chapter 2 identified the benefits when consumers are synonymous with taxpayers and voters. Under such circumstances, behaving according to the rules becomes more logical. In many countries this cannot be presumed. To help tackle imbalances between policymakers and consumers, increasing transparency and improving accountability makes it more costly (in terms of loss of status or prestige) for politicians and public officials to renege on agreements. Publication of plans and achievements gives consumers access to the necessary information. If Parliament

can be provided with adequate technical capacity to evaluate government programmes and proposals, the government will be under more pressure to deliver on what it has promised in the expenditure plan.

**Efficient delivery** of services will depend on the managerial autonomy of the implementing department and predictability of the flow of resources. An additional requirement is adequate compensation, preferably linked to private sector arrangements and divorced from systems of promotion and recruitment which are based solely on political connections and influence. Even with these elements, technical efficiency is not guaranteed. Departments have to be made accountable for allocational decisions and for the efficient delivery of services. Efficient delivery encompasses both performance audits and the perceptions of clients through surveys. Ultimately, the service delivery should be contestable against other, possibly private sector, sources.

Donor assistance can exacerbate the problems which public sector management is trying to tackle. It is in the interest of government departments to enter into bilateral arrangements for funding, to overcome the problem of prioritisation and competition. But local or counterpart funds may not be available. Projects bring recurrent implications which may be in conflict with the macroeconomic framework, and not be sustainable. To the extent that project assistance is extra-budgetary, aid finance undermines priority setting and fragments the budget. But aid programmes which impose conditionality to bind claimants together, and which give a supervisory control to central departments and structure expenditures through the budget address these issues directly.

One of the reasons that donors sometimes favour extra-budgetary departmental arrangements is to encourage the adoption of policies which are compatible with donor objectives. This is using projects to leverage policy through the back door, avoiding national political consensus. If the model described above is valid, such manipulation is not sustainable. Furthermore, the fungibility of project resources implies that donors should be focusing not on individual project appraisal, but on evaluating the broad composition of public spending.

### **3. Human resource development**

An important element of public sector management is the changes which are implied for the public services, both in terms of personnel and devolution of authority. The model of reform indicates changes under which accountability is passed to managers in implementing agencies. To support this change more flexibility is required by simplifying personnel rules and devolving personnel administration from centralised agencies to line managers. Changes include simplification of grades and structures, devolved authority to set pay and reassign people to other tasks, and simpler procedures for firing poor performers. At the highest levels, accountability includes the use of performance contracts in which managers agree targets as part of their remuneration package.

#### **E. Information about costs**

Few publications in this field devote much attention to costs and almost none of the people interviewed were able to provide specific examples. There is a consensus that performance management is not costless, but costs are more clearly identified for specific events such as the introduction of a new procedure (feasibility study, training, development and printing of forms and handbooks) than for the day to day operations. This lack of information is entirely understandable<sup>5</sup>. First, because the imperative for new procedures is that they should be simple (*ergo* low-cost). Second, if agencies are being well managed then they will quite naturally be setting goals and monitoring progress, so changes will be of degree rather than fundamental. Third, if an agency needs to start a system from scratch, what does that say about how they are being managed? In such circumstances, discretion is manifest.

Some information is available about costs of system start-up and of activities such as evaluation. When the United Nations World Food Programme introduced a new country office project progress report in 1990, the system design and preparation of training materials took about 10 months of international consultancy time, and was followed by about 20, five-

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<sup>5</sup> A number of people were able to comment orally on the issue of costs, but wished not to be quoted and were unable to recommend published documentation.

day training workshops for around 350 staff. In addition to the costs of the trainer, resource people and materials, staff travelled to regional centres for the training. One senior headquarters staff member was assigned full time to the new system and some staff costs were incurred for periodic management reviews and computer development<sup>6</sup>. At this latter stage it becomes difficult to separate costs associated with the new system from normal management practice.

In 1996 the World Bank introduced new procedures for investment project documents and supervision project status reports. The changes included document redesign and new computer systems. The costs of the changes are not published, but need to cover the costs of staff and consultancy time for development and testing. Additional costs would include the time for operational staff to become familiar with the new systems.

The running costs of evaluation units provides a proxy for another aspect of performance measurement systems. Table 4 presents a summary of data from a Netherlands 1996 study. The figures are also thought to be broadly consistent with the experience of USAID. Cost comparisons are complicated by different systems some of which cost evaluations under project budgets and others under evaluation unit budgets.

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<sup>6</sup> World Food Programme CFA:37/SCP:12/INF/4

**Table 4 Evaluation Units of European Union Member States and Other European Donors**

|                                      | Norway    | Finland | Sweden            | Denmark      | Ireland | UK        | Netherlands       | Belgium           | Germany            | France <sup>h</sup> | France <sup>h</sup> | Switzerland | Austria          | Spain | EU                |
|--------------------------------------|-----------|---------|-------------------|--------------|---------|-----------|-------------------|-------------------|--------------------|---------------------|---------------------|-------------|------------------|-------|-------------------|
| Evaluation unit <sup>a</sup>         | y         | y       | y                 | y            | e+a     | y         | y                 | e+t+o             | y                  | e+r                 | e+r                 | y           | e+a              | y     | y                 |
| Year of formation                    | 1986      | 1993    | 1972              | 1982         | 1978    | 1980      | 1977              | 1985/92           | 1972               | 1987                | 1989                | 1970        | 1988             | 1988  | 1992 <sup>j</sup> |
| Organisational position <sup>b</sup> | MI        | AI      | AI                | SA           | DM      | IA        | SM                | DI                | DM                 | DM                  | MI                  | DA          | DM               | DM    | AI                |
| Number of professional staff         | 3         | 3       | 4                 | 4            | 5       | 6         | 10                | 3                 | 4                  | 2                   | 5                   | 4½          | 6                | 3     | 10                |
| Budget US\$                          | 1.47      | 0.64    | 0.70              | 3.06         | 0.45    | 1.29      | 2.06              | 0.39              | 3.32               | 0.87                | 0.97                | 3.50        | 0.47             | -     | -                 |
| Budget as % ODA                      | 0.12      | 0.22    | 0.07              | 0.33         | 0.40    | 0.04      | 0.06              | 0.05              | 0.45               | 0.3                 | 0.15                | 0.30        | 0.50             | -     | -                 |
| Number of evaluations/year           | 6         | 20      | 20                | 12           | 20-25   | 15/120    | 3                 | 5-10              | 60                 | 20                  | 8                   | 40-50       | 5                | -     | 100               |
| Number of projects                   | -         | 300     | 3000 <sup>g</sup> | -            | 75      | 600       | 4000 <sup>g</sup> | 1000 <sup>g</sup> | 10000 <sup>g</sup> | 50                  | 100                 | 400         | 560 <sup>g</sup> | -     | -                 |
| Type of evaluation <sup>c</sup>      | PSTM      | PST     | PSCT              | PSCTMN       | PC      | PS        | PCST              | PCM               | PSCMT              | PSC                 | PSCT                | PS          | PC               | PS    | PST               |
| Main accent on                       | ST        | ST      | T                 | PT           | PC      | PS        | CT                | P                 | P                  | SC                  | SC                  | P           | P                | P     | PS                |
| Quality control <sup>d</sup>         | u         | n       | u                 | u            | c       | m         | u/c               | n                 | u                  | u                   | c                   | m           | d                | n     | u                 |
| Public/ confidential <sup>e</sup>    | O         | O       | O                 | O            | C       | O         | O                 | C                 | C                  | C                   | C                   | C           | O                | C     | O                 |
| Feedback mechanism <sup>f</sup>      | s a se in | a se    | s a se            | s a se in fm | a ln qr | s a se ln | s se ln d t       | s                 | s a fm             | s a ln              | s a se              | a se ln     | s a d            | a     | s a ln            |

<sup>a</sup> y =yes; e+a = evaluation and audit; e+t+o = evaluation, training and organization; e+r = evaluation and research

<sup>b</sup> AI = independent within agency; MI = independent in ministry; DA = dependent on apparatus; SA = semi-dependent within agency

<sup>c</sup> P = project evaluations; S = synthesis studies; C = country studies; M = multilateral aid studies; T = thematic evaluations; N = NGO studies

<sup>d</sup> n = non; u = by the unit; c = by experts committee; m = by management; d = by tripartite discussions

<sup>e</sup> O = open to the public; C = confidential

<sup>f</sup> s = summaries and abstracts; a = annual reports; se = seminars; ln = linkages into new policies; fm = follow-up memorandums; d = (tripartite)

discussions with participants or in-house; t = integrated in training; qr = quarterly reports

<sup>g</sup> = not only projects but all activities financed by the agency

<sup>h</sup> = resp. Direction du Trésor, Ministère de l'Economie and Mission chargée des Etudes, des Evaluation at de la Prospective (MEEP), Ministère de la Cooperation

<sup>i</sup> = including NGO activities

<sup>j</sup> = year of reorganisation; data in this column from annual reports

Source: adapted from Hoebink 1996

The data in Table 4 are difficult to summarise into a simple conclusion. The design and introduction of a system must clearly have several elements: the process of design, the training for operational staff, and the follow-up technical assistance whilst staff get used to procedures. The scope of training ranges from single-session workshops through to case-study material, specialist technical support units and helplines. A small agency might find the single-session workshops adequate. Larger organisations, with more staff to train and possibly higher staff turnover, might need a more diverse and supportive process. The current effort by the World Bank to promote better performance measurement involves good practice examples, a helpdesk, an intranet web site, training in the logframe, performance measurement and monitoring and evaluation, and support for evaluation capacity development among borrower countries (World Bank 1997).

## **F. Performance in business**

Concerns over monitoring are confined neither to development projects nor to the public sector. Companies which have long relied on traditional financial accounting measures or operational measures of production have found that in a business environment where innovation and change is critical a wider range of indicators are required. One approach has been to devise a balanced set of measures which has four perspectives: a customer perspective (how satisfied are customers); a financial perspective (how does the company look to shareholders); an internal perspective (what must the company be good at); and, an innovation and learning perspective (can the company continue to improve) (Kaplan and Norton 1992). The perspectives offered in this approach provide an important contrast to the logframe. They emphasise the context, the relationship between a company and its customers, and they are dynamic, looking at the ability to innovate.

A development agency clearly needs elements from both the technical focus of project indicators seen under the logframe, and the wider view of the agency and its stakeholders. The extent to which UNDP can bring together the results of project performance alongside an assessment of its own internal performance is the challenge of performance management.

The logframe and use of monitoring indicators are not new initiatives. Both have been used for up to twenty five years and yet still there is a widespread sense that performance information is incomplete or unsustainable or both. The donors' approaches have tended to have a narrow focus on the needs of a programme or project. Institutional development is rarely a feature of project monitoring arrangements. By contrast, administrations in the OECD which are concerned with the institution of government as a whole have focused on public sector management.

# **4. Lessons Learned**

## **A. Introduction**

The reforms which have been investigated in this report reflect a decade of change in managerial culture and practice in the OECD countries and development agencies. The change has been gradual and evolutionary, responding to political pressures and reacting to experience with new systems. Different agencies highlight different aspects, the importance of devolved authority, the need for evaluation and audit, the technical aspects of setting objectives, and the choice of indicators. An important lesson is that none of the technical issues are pre-eminent. Good performance measurement needs a balanced approach across policy and practice. The aid agencies face the double challenge of introducing effective internal performance management in parallel with sustainable systems in their client countries.

What is outstanding is the need for a clear vision and sense of direction in promoting change. In the UK, reforms are associated closely with the privatisation philosophy of the Thatcher administration. Similar stimulus can be seen in Australia and New Zealand, and from the Wapenhans Report in the World Bank. Changes in techniques are unlikely to prosper if they are not based on the fundamental values of the administration. Reform will only succeed if there is determination to see it through.

Seeing it through, however, implies that there is a defined organisational state to which agencies can aspire. The experience of practitioners interviewed for this study is that performance management is a learning process. There is no end to modification and change in the techniques and procedures. Results stimulate new ideas. Once a learning system has been

introduced, the information which comes from that system will itself generate new demands for change. As long as the organisation's goals remain constant, the system is just a means to an end.

Techniques which reflect good practice are described in the next chapter. Here are summarised the main lessons which have emerged from the interviews and reviews of reports about agency experience introducing and using performance measurement. General conclusions from the literature are reviewed first, followed by specific lessons from the Australia and New Zealand visits, summarised from Annex 5.

## **B. Institutional**

**Background.** Before introducing new procedures, take the opportunity to review existing systems or systems which have been tried in the past and examine why they failed to achieve their objectives. Learn from mistakes. For example, if indicators have been tried but not found to be effective examine how they were chosen, who scrutinised the information and how was the information used. Use shared experience to gain consensus around reform.

**Organisational arrangements.** Lead the process from a central agency such as departments of finance or planning, or the cabinet office, or the chief executive's office. Plan organisational arrangements to support performance management and don't try to fit new procedures around existing organisations. The separation of policy formulation from executive agencies in many countries is fundamental to performance contracting.

**Stimulate demand** for performance measurement. This is a big challenge in an environment where there is a mix of aid and non-aid-funded activities. The aim is to identify the potential benefits among stakeholders such as: line departments, that budgets will be more reliable; politicians, that the public service will be more efficient; citizens, that public services will be of a higher quality, managers, that they will be given the authority to manage. *'Don't impose, involve'*. In order to achieve this it may be necessary to review management on a sectoral basis and to spend more time prior to implementation working with those people who will be affected.

**Persevere,** improvements are unlikely to come quickly. For aid donors dealing with a two year planning cycle and five year implementation, results may take a decade to emerge.

**Involve top management.** Ensure the highest levels of management are fully committed to avoid reforms being by-passed for short-term gain. Performance management cannot be implemented at a purely technical level, such as through evaluation and planning. The approaches used in OECD nations include publicity about chief executives' responsibilities and their agency's commitments to specific targets.

## **C. Operational**

**Budgetary pressure** is the most significant feature identified in many countries. The requirement for efficiency savings draws the attention of staff to performance and the need to measure it. Linked to budgetary pressure is greater openness and the publication of forward estimates to indicate expected resource flows. Aid projects support pressure of this kind when they have comprehensive budgets, including domestic contributions, but undermine budgetary discipline when the project is managed outside the budget.

**Budgetary stability.** Publication of forward estimates creates an environment of expectation which enables performance measures to be set. Economic turbulence is disruptive to performance management because once funds are withdrawn the basis for performance contracts is lost. Stability is reinforced by the public *ex-post* reconciliation of planned and actual expenditure. Studies by the World Bank have shown, for example, average variances of 90 percent for budget expenditure in Uganda, but there, and in many countries, institutional weaknesses mean there may be no mechanism to track actual expenditures. Mechanisms and greater openness are needed.

**Contracting.** Performance contracting emerges as the cutting edge of performance management. It unites the elements of goal setting, choice of indicators, devolution of responsibilities and acceptance of accountability. The legalistic tone of this process can be appealing, but the lessons are that contractual arrangements are invariably incomplete. Contracting is a way of making a formal commitment to objectives. But the problems of specifying fully the features of the outcomes that are required and the way parties should respond to unforeseen circumstances means that a written agreement is of questionable value.

The specific links between objectives, performance indicators and risks makes the logframe an effective 'contractual' document.

Performance contracts appear to be used with success, but across the broad spread of line management they need to be supported by other arrangements: recruitment of highly skilled people, rather than just promotion within the organisation; the fostering of traditional norms of professionalism, loyalty and public service; and arrangements to make the supply of services contestable wherever possible.

**Training.** When new systems are being introduced training is likely to be needed at two levels: familiarity with the basic concepts linked to the underlying principles of reform; and operational support to define objectives, construct performance indicators, use indicators for reporting and review, and to evaluate. The former can be achieved through briefings and explanatory material. The latter requires a sustained effort from something like a 'methodology support group'.

#### **D. Methodology**

**Performance objectives.** Much has been written about the hierarchy problem of choosing between outputs and outcomes. The logical framework offers the most structured approach to resolving this dilemma. But frustration by aid agencies at the limited impact of the logframe when it is used mechanistically, and the problem of freeing-up sufficient resources to use it as a participative tool has left many people suspicious of its real worth. It is notable that US AID now uses analysis of an objective tree as a preferred alternative.

Attention needs to be focused on the process which the logframe seeks to facilitate. The aim is to set manageable objectives. The key is that they should be realistic, specific and measurable. The act of choosing indicators is a test of those objectives. If indicators cannot be found, or are too complex to be measured, then the objectives have to be re-examined. However it is accomplished, this iterative process is a necessary step to performance management.

A further advantage which proponents still claim for the logframe is that the identification of risks helps structure the uncontrollable factors separating outcomes from outputs. Management agreement on acknowledged risks raises the possibility of agreeing the framework within which outcome targets can be set. Given the accepted difficulty of writing outcome contracts this feature of the logframe appears to be under-valued at present. A closer specification of the assumptions under which outcomes will be achieved may help managers to accept more accountability for achieving outcomes.

**Performance budgeting** improves accountability by linking budgets to results rather than to inputs. Lump sum operating cost budgets such as are used in Australia takes this a step further and helps start the process of giving greater authority to managers.

**Reporting.** In view of the output-outcome problem, there are real difficulties in holding managers accountable for the changes which policies seek. In general, publication and transparency promote better understanding of the difficulties of public sector management. The UK debate over school performance is a good example where controversy about simplistic, but easily obtained indicators has stimulated better understanding of the measurement problem<sup>7</sup>. Reporting can be counter-productive, as when teachers 'teach the test' in order to reach targets. Australia Post first used the number of letters sorted in a day as an indicator, but then discovered offices re-sorting to boost apparent performance. An improved target of percentage of mail delivered on time is now used. Fear of embarrassment through publication may be the only sanction against senior managers, but the evidence is that it appears to be effective.

The more successful examples of performance measurement in aid agencies are where indicators are used in support of portfolio management, and where results are consolidated for managers. Paradoxically, perhaps the best-known example is that of the World Bank which publicly acknowledges the proportion of its completed projects which fail to achieve a satisfactory rating (World Bank 1996b). This statistic, used as an easy target by

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<sup>7</sup> Local authorities in the UK have to publish school league tables, based largely on exam performance. Public debate over the limited value of crude pass rates which fail to take account of a child's potential or the socio-economic circumstances of the school intake have fueled a wider awareness over the problems of measuring performance.

critics of the Bank, is only available because of the structured rating system in use. Equating performance with other agencies is difficult if their reporting systems do not provide a comparable consolidated measure.

**Auditing and evaluation** are an essential component of the performance contract, and help tackle the difficulty of measurement between outputs and outcomes. Performance auditing owes its origin to the value for money concerns of early reforms. More recently, it reflects a movement by auditors, often led by their national agencies, to audit outcomes as well as financial performance.

Evaluation is well established in aid agencies, but features less extensively among the OECD national systems. Evaluations are a key element of the Australian system. There has been a dramatic increase in the quantity of evaluations produced over the past decade. In Australia there were about 530 evaluation reports in the past four years and 160 Performance Evaluation Plans were scheduled to be completed in 1996.

The lessons are that major efforts are required to develop skills to undertake such evaluations. Independent central evaluation agencies can help this process. Benchmarking is a relevant technique for performance assessment during evaluation.

### **E. Lessons from the Australia visit**

The following points aim to highlight some of the specific lessons which have emerged from the implementation of performance measurement systems within the Australia Public Service:

- There needs to be a supportive (and relatively stable) **policy and institutional framework**. This should include, *inter alia*, the existence of formal cabinet endorsed evaluation requirements, support of key Ministers, mandate given by Cabinet to Finance to implement systems at the macro level, strong support of portfolio heads, devolution of management responsibility, cash ceilings, forward estimates, etc.
- It is a **long term process of change** which must achieve sufficient momentum and consensus to ensure evaluation is accepted as a worthwhile activity. There is a need to develop a culture of evaluation across the service. This is not easy and takes time and persistence. It is an ongoing process of improvement and refinement which requires continuous learning.
- Central **monitoring and evaluation units** within portfolios are required to drive the process forward and provide the necessary level of technical and analytical skills. The design and implementation of effective/useful performance indicators and evaluation systems is not easy.
- Performance information and evaluations are mutually supportive and complementary. Good evaluation and good performance information go hand in hand.
- Performance indicators themselves do not generally tell us **why** performance is good or bad. Allow for further examination of underlying issues. It is this follow-up examination and resulting activities which impact on performance. Performance indicators alone are usually not sufficient to provide an overall measure of performance. Additional qualitative information, surveys or evaluation activities are required. Don't expect too much from indicators and evaluations - they are only a **tool** to help improve resource allocation and management decision making.
- The **quality** and usefulness of performance information and evaluation findings are more important than the **quantity**. There needs to be a clear focus on collecting only the information that will be used (don't have too many indicators or try to conduct too many evaluations. The concept of 'Minimum Information Systems' is relevant in this regard.
- Specific and sustained attention needs to be given to finding and using appropriate indicators for measuring **outcomes**. This is often the greatest challenge when moving away from an inputs/activities/outputs focus. There is also a need to balance quantitative measurement with more qualitative indicators of programme performance.
- **Objective setting** needs to be clear and well structured and directly linked to the selection of appropriate performance indicators. The Logical Framework approach to project design emphasises these requirements (both the vertical and horizontal logic) and is a valuable analytical tool designed for this purpose.

- Adequate emphasis should be given to identifying appropriate performance standards and targets, and to using **benchmarking** principles. Indicators and targets should be set in the context of what is understood to be best practice, through reference to the experience of other agencies undertaking the same or similar tasks.
- The information generated from performance measurement systems must be **used**, otherwise cynicism is built among managers about the purpose of the activity. There must therefore be a **management** information focus and adequate attention paid to the way in which information is reported and presented.
- Performance measurement systems involve the systematic collection, recording, analysis, reporting and use of information. The availability and use of appropriate **information technology** (computer driven systems) can be almost essential if the significant volume of data is to be managed, and turned into management information in a timely manner

#### **F. Lessons from the New Zealand visit**

Key issues and lessons learned are summarised below in point form:-

- While new **formal management arrangements** and systems have been vital, the positive changes that have been brought about could not have occurred without the **informal systems** of peer-group pressure, a commitment to public service ethics and individual professionalism among key staff.
- **Letting the managers manage** has been balanced with systems of accountability that have also **made** the managers manage. Increased managerial discretion has been balanced with a system of incentives and sanctions that help ensure accountability.
- New Zealand has been fortunate to have a pool of skilled and experienced managers and technical experts to help design and implement the reforms. The Treasury in particular is reported to have invested significant time and effort in **staff skills development**, particularly during the late 80s and early 90s.
- **Output specification** has been at the core of the new financial management, contracting and accountability arrangements. Explicitly stating what goods and services are to be provided has helped managers know what is expected of them and how well they are doing. There has been recognition, however, particularly over the past 6 years, that attention to longer term outcomes must also be better integrated into the resource management system.
- **Transaction costs.** There can be a significant cost incurred in developing and maintaining the planning, contracting and accountability systems - mostly in terms of the administration, documentation and reporting requirements. There are trade offs to be considered at the margin between more precise contracting and accountability systems, increased costs and decreasing marginal utility of the information generated. Larger agencies are much better positioned to absorb and manage these costs, while the smaller agencies have found them much more difficult to accommodate. This has led, in both NZ and Australia, to moves to establish larger agencies (or portfolios of agencies) for the purpose of more streamlined and cost effective performance management and measurement.
- **Information presentation and dissemination.** Problems have been faced in trying to make the large amounts of information generated useful and accessible. The amount of detail has been reduced to better meet the needs of busy managers with specific decision making responsibilities. Legislation requires that specific planning, budgetary and expenditure information is made publicly available, and this helps to underpin the principles of transparency and accountability.

## **5. Current good practice**

### **A. Introduction**

To a large extent, good practice is something which is determined by the context and the determination with which procedures are followed. Many readers will be familiar with good and bad practice in the use of simple procedures such as regular reporting. It is not

surprising that good practice means just that - practice or use - rather than the intrinsic worth of a technique. On that basis, even the best of techniques will be found with good and bad application, even in the same organisation.

Eight techniques have been selected to illustrate good examples of key elements of performance management. For each technique, there is a brief statement of what aspect is considered good practice, and why it has been selected.

## **B. Good practice**

### **1. The logical framework**

Any system of performance measurement requires a procedure by which agreement can be reached among stakeholders on objectives and indicators. The logframe (or its variants such as ZOPP) is the most comprehensive approach. It is selected as good practice because there is a wide range of experience (some critical literature is now emerging), it is known and used extensively among staff of development agencies, and it provides a common set of terminology and concepts. Criticisms that the logframe is a mechanical and simplistic tool miss the point that it needs to be used in a participative forum and examined critically throughout the project cycle. It is the best approach available and deserves serious attention.

### **2. Analysis of risks**

The analysis of risks undertaken in the project appraisal document and logframe, and the link between the logframe and project supervision reporting by the World Bank (Annex 4), is good practice. Analysis of risks, especially between outputs and outcomes is a key stage in project design and accountability contracting. Awareness that risks have to be managed has come late to development. The logframe presents a valuable structure for this analysis. To be effective, risks have to be monitored alongside performance indicators. The World Bank's approach of incorporating logframe risks in the six-monthly project status report updates assumptions made at design with the situation during implementation, and highlights this important area.

### **3. Indicators - design support by USAID and World Bank**

Performance indicators are the key to measurement and performance management. No aid donors have yet reached a good standard of performance measurement, partly because of the complexity of many development project objectives, and partly because of the recurring dilemma over the output to outcome problem. The attention given to indicators is a particular problem as there is a danger that they are promoted as the most important element in performance measurement rather than just a necessary component. Two examples are selected as good practice: one is the work by USAID to simplify program indicators across all countries; the other is the work by the World Bank on designing indicators sector by sector (Annex 4). Both approaches bring valuable benefits. The AID approach recognises the need for standardisation across a few measures, avoiding complexity and proliferation. The Bank's work has widened the involvement of professionals so that indicators are seen as a valid concern of technical experts and not a residual problem for a last-minute M&E design.

### **4. Performance analysis by a development agency**

Two examples of agency monitoring and analysis show good practice.

#### **a) Supervision monitoring by the World Bank**

The system of supervision reporting by the World Bank integrates information about risks and performance indicators in the project document with a set of ratings about implementation performance and progress towards development objectives. Supervision reports are stored on a database available to all Bank staff, and are used, together with evaluation findings, for country portfolio reviews and for the Annual Review of Portfolio Performance, which is submitted to the Board. This system is selected as good practice because it is integrated between design and implementation, there are explicit links between project indicators and overall performance ratings, and because project-level information is normalised through common ratings, so enabling comparative analysis.

One important feature of the Bank which stimulates the need for such a structured approach, is the size of the organisation and its aid portfolio. A computerised database is the only medium through which managers could review progress on such a large scale. Agencies

with a smaller scale of operation might find the statistical aggregation less attractive, although the structured ratings would be equally valid.

#### **b) ODA PIMS markers**

There is no explicit link between the World Bank's own goals and the objectives of specific projects. This link has been made by ODA. The good practice example is the procedure by which projects are assessed according to the extent to which projects contribute towards ODA's aims, and the 'contracting' of senior civil servants to monitor and report on progress towards those aims.

### **5. ODA introduction of output to purpose reviews**

In so many agencies, the logframe appears briefly as a contribution at the design stage, never to be referred to again during implementation. Tales of dusty charts fading on office walls years into the project life are common. Much of the value of the logframe comes when it is re-examined during implementation, to keep activities on track. ODA has recognised that the hierarchy of objectives offers a way of leveraging attention towards project purpose and away from the inevitable concentration of attention on activities and outputs. This new style of review is based on the logframe objectives and asks reviewers to assess the extent to which purpose is being or is likely to be achieved. On the few examples available from this new approach, the report output is tabular, with its origins in the logframe matrix, and geared towards management decisions.

### **6. Portfolio evaluation plans - Australia**

The Australian experience stands out for the importance attached to evaluation. This is vital, especially in the context of development projects, where goals commonly refer to social or economic change. The PEPs have tended to be long documents, (between 30 and 100 pages) and there is currently a move to make them shorter and more strategic. New guidelines for preparing PEPs have been prepared by Treasury. Departments give details of which evaluations will be carried out and how, particularly for the next year. Detailed TOR, resource requirements, co-ordination mechanisms and reporting arrangements are specified. There is also a review of what happened the previous year.

### **7. Customer satisfaction - Citizen's Charter**

Evaluation is necessary for the ultimate judgement about effectiveness and impact. But managers need information during implementation which can guide the activities being performed. The UK experience with customer satisfaction demonstrates good practice. It recognises the importance of the consumer of services both in setting objectives and measuring performance. It creates an intermediate layer of information between outputs and outcomes (Annex 5).

### **8. USAID Results Report and Resource Request (R4)**

Last, the USAID approach of linking performance to resource allocation brings together key elements of performance measurement and performance management. In the aid context, resources are made flexible within programme categories, enabling some adaptability in the application of funds away from poor performing activities. The principles being applied here illustrate the types of change needed for domestic expenditure management in many developing countries (Annex 4).

## **6. Conclusions and recommendations**

### **A. Performance measurement**

The review of OECD and aid agency experience with performance measurement has shown that there has been a long history of attempts to introduce systems. The use of indicators is the best example, with efforts going back over twenty five years. What characterised those attempts for aid programmes was a relatively narrow focus on the technical aspects of development programmes and a concern to generate information to evaluate project success or failure. This perspective is an important one because it reflected the need of the aid agencies to be able to demonstrate success, rather than a concern to improve the efficiency of public sector activities in their client countries. In other words, the emphasis was firmly on the ends rather than the means.

By contrast, when the OECD countries started to look at public sector results, the driving force was the need to improve the *performance* of national bureaucracies and deliver better public services. The means were as important as the ends.

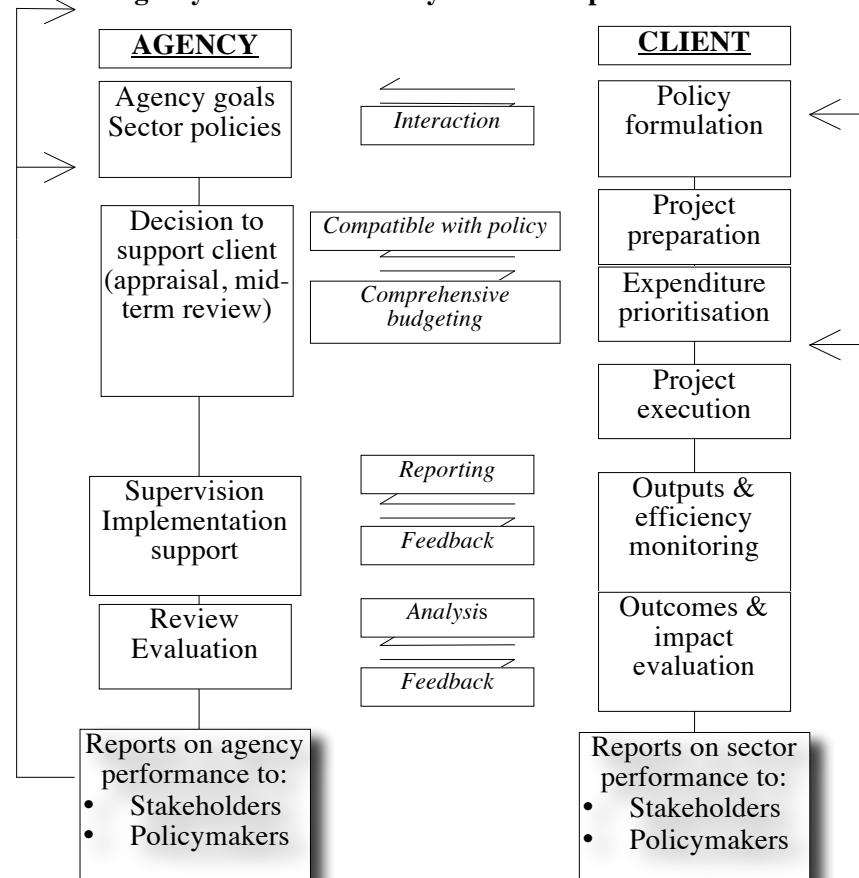
Public sector management reform brings together elements which include clear and visible policy commitments; agreement over budget priority settings; and technical efficiency. The policy commitment means that the government is determined to carry out the actions agreed. Prioritisation means that the planned resources will be available. And technical efficiency means that within this policy-affirmed and resource-secure environment, performance measurement can help and influence management. This reformed environment is the principle difference between the apparent success seen in the OECD states and the poor standing of monitoring and evaluation in development projects. The techniques employed in other respects are largely the same.

The practical aspects of performance measurement hinge on:

- a) Use of an analytical procedure to identify objectives; recognition of the output-outcome dilemma; and recognition that objectives do not necessarily reflect the perspectives of all stakeholders. The logical framework is the tool of choice for development agencies and is used implicitly elsewhere.
- b) Advice on the selection and use of indicators, with menus, lists, technical guidelines and specifications. Publications on indicators has been a particular feature of initiatives by aid agencies in recent years.
- c) A structured reporting and analysis system to report performance.

Figure ZZ shows the parallel flows of information in a combined aid agency/client system. All stages are critical, as are the linkages between the agency and the client country.

**Figure ZZ Aid agency and client country twin-track performance measurement**



The diagram illustrates the importance of ensuring genuine policy support for a programme by including it in a comprehensive domestic budget, then using performance indicators to drive outputs and efficiency monitoring, formal reporting to the aid agency, and reports a) by the client to its stakeholders and policymakers, and b) by the agency to its own stakeholders and policy makers. Performance *management* then hinges on the use of that information to influence expenditure prioritisation through the budget, and policy analysis. The aid agency's main decisions are to influence policy or continue or withhold support for the programme.

The OECD reforms which do not have to tackle the twin-track system demanded of aid agencies, reflect some common and some individual philosophies. There has been a common theme of controlling public expenditure, which is in marked contrast with development agencies where technical performance has been paramount over efficiency (often owing to weak or non-existent cost-accounting systems). The recognition of client satisfaction as a goal is also widely found.. This falls short of technical impact but is highly relevant to the provision of services such as healthcare, education, and social services, where impact is slow to emerge and affected by other, external factors. Many countries report difficulties trying to monitor outcomes, and more success with outputs and efficiency measures.

The OECD reforms have common features related to delegation of authority, accountability and control over resources; the use of performance contracting and attempts to resolve the output-outcome dilemma; publication of results and performance measures; and budget mechanisms which give more flexibility in the management of resources in exchange for more accountability and reporting.

Even the most innovative among the aid donors has not tried to match these broader systemic changes introduced in the OECD bureaucracies. One basic dilemma is that aid agencies are dependent on results from client countries. Systemic, performance management would need to be introduced by the client administrations. What this study has done, is

identify this central issue of whether performance measurement can be successfully implemented without a supporting institutional framework.

## **B. Measurement or management?**

A central question to emerge from this study is that UNDP and SIDA need to be clear to what extent their goal is better performance measurement, or better performance management. Whilst performance measurement is a necessary element of improved management, performance management as practised in the OECD countries implies a wider-ranging set of reforms, not all of which are straightforward from the perspective of aid donors.

To the extent that performance **measurement** is a goal there is sufficient evidence that the key elements are well known to donors and are already carried out to some extent:

- adoption of a methodology to define objectives - preferably the logframe
- identification of critical assumptions
- selection of indicators
- relation of indicators to specific management levels for reporting
- periodic collection and analysis
- aggregation of ratings to permit performance comparisons (ratings)
- independent evaluation
- summary reporting to analyse agency performance

This list is unremarkable and could have been compiled at any time from the experience of the last twenty five years. In so many instances it has failed, for several critical reasons:

- absence of incentives to prevent trivialisation of objectives and indicators - the caricature 'fill-in-the-boxes' approach to preparing a logframe, widely acknowledged by agency staff under pressure
- difficulties incorporating project specific results into standardised measures which can be used to prepare comparative analysis
- limited use of analysis and publication of performance preventing wider debate among stakeholders about the effectiveness of aid activities
- lack of ownership by the beneficiary country of the performance measurement system

These factors are essentially qualitative, how the system is used rather than what its components are. They reflect the missing link between the measurement procedures and the way in which information is used - the management process. They help explain the relatively limited improvements in performance experienced by, for example, the European Commission, after introducing procedures for project cycle management based on the logical framework (ITAD 1996). The Commission's experience is thought to be common to other donors.

The importance of these factors is increasingly well recognised. Some donors already have management procedures designed to overcome these deficiencies. For example, with one significant exception, these factors are to be found in the system being introduced by the World Bank, which is trying not to repeat the same mistakes made elsewhere. The exception is that the Bank has not yet identified a convincing way to gain ownership by their borrowers, although many initiatives are being explored.

But even where the aid agencies can tackle their own internal management procedures and use of performance information, advocating performance measurement to clients in isolation is unlikely to lead to improved results because too many components are missing. The lack of ownership so frequently referred to, more often than not reflects the fact that managers of development programmes are operating under conditions that make the delivery of contracted outputs and outcomes very difficult:

- a lack of commitment in resource allocation, which can mean dramatic changes between the client country's budget and actual expenditure
- absence of any forms of accountability among managers, with neither rewards nor sanctions

The dilemma is that the solution appears to be all or nothing: adopt full-scale public-sector management reform as demonstrated by the OECD nations, or remain with sub-

optimal, inconclusive project indicators. How many developing countries have either the political will or bureaucratic strengths to begin such far reaching change?

The situation is perhaps not so dire. The principle conclusion of this report is that for effective change, performance measurement has to be accompanied by management procedures which enable the information from measurement to be a necessary and influential contribution to management. In other words, the bureaucratic process must have some features which make evaluation and performance results **desirable** to managers: a system of rewards and penalties. The principles of expenditure management, accountability and transparency behind the techniques which have been used successfully in the OECD countries can help improve development projects.

## C. Recommendations

Aid agencies wishing to make better use of performance measurement to achieve results need to tackle the problem at two levels: i) internally; and ii) in their dealings with their client countries. For their internal operations the key requirements are to introduce procedures to analyse, publicise and act on performance measures along the lines described above. For many agencies, these mechanisms are in place or under consideration. Good practice examples have been discussed in Chapter 5. The use of ratings (OECD 1996) is an important contributory factor, to enable cross-project, cross-sector, and cross-country analysis. Ratings are not favoured by all agencies, but experience suggests they are the best way to achieve comparative analysis. They also open the way for donor benchmarking.

### 1. Strategies

The greater challenge is at the country level. Here, there is a need for a range of strategies depending on the country situation:

- a) **Full-scale public sector management support.** In countries with receptive public administration, UNDP, with its special concerns for capacity building, is in a unique position to help design and implement reform programmes drawing from the lessons of Australia, New Zealand etc.
- b) **Sectoral programme support.** In countries where sectoral investment programmes are being implemented, the integrated sectoral focus provides a natural platform for the coherent management of the budget and technical performance. Moreover, such programmes are likely to be supported jointly by major donors, including the World Bank and European Union, thus increasing the scope for co-ordinated action.
- c) **Ad hoc, project-based support.** Elsewhere, the only scope is to approach management at the level of the specific project and implementing agency.

The situation under b) and c) may appear less than satisfactory, given that much of the argument in this report has been to stress the importance of comprehensive change. However, mindful of the maxim *'the best is the enemy of the good'* the aim should be to set modest and realistic objectives.

The entry point for the proposed strategy is the analysis of risks during project design, and seen explicitly in the assumptions in the logframe. A well-articulated analysis of risks should include the provision of adequate and timely finance, should stress management responsibilities, and government commitment. These necessary features have not had sufficient influence in the past. Donor encouragement can then be used to develop the mechanisms which support accountability in four ways:

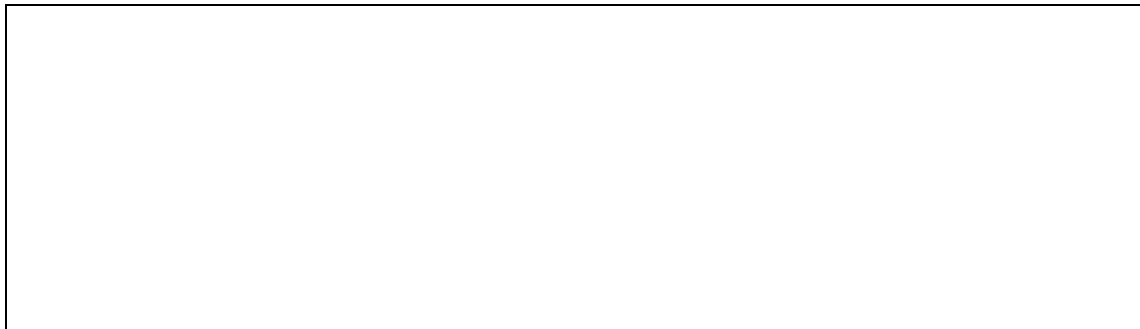
### 2. Mechanisms

- a) First, **reporting and publication:** of project goals and activities; of both donor and domestic budgets and actual expenditure; and of targets and annual performance. Public and transparent reconciliation of expenditure and progress targets is at the heart of performance management. Too often, donors focus on the aid component of project costs and see activities undermined by inadequate domestic contribution. The more public the commitment, the harder it is for policy-makers to renege on commitments. The disadvantage of applying this pressure for a single project or sector is the danger that funds will be diverted from less visible uses.

- b) Second, provide generous support to introduce fully-functioning **output and efficiency** monitoring, closely linked to rigorous financial accounting and administrative reporting.
- c) Third, promote widespread adoption of the use of **client surveys**. Fundamental questions in the majority of social-sector projects are: do the beneficiaries have *access* to, *use* of and *satisfaction* with project services? Many economic projects share similar aims. Customer satisfaction is a pivotal influence on performance management.
- It recognises that services are for people and that perceptions are valid and vital indicators
  - Publication broadens public awareness
  - Customer surveys help reinforce transparency and contribute to future targets
  - From an evaluation perspective, satisfaction surveys offer a technical product that has an immediate impact on management, is relatively low cost and low complexity, and gives a fast turn-around of results compared with impact studies
- d) Fourth, give support for internal evaluation studies, using the example of the Australian portfolio evaluation plans as a model. Combine local contracts to develop capacity with a requirement that results are made publicly available and discussed in publicly accessible meetings wherever possible. Intellectually rigorous evaluation is a necessary element of the whole system. By providing a broadly-based set of client satisfaction surveys, the focus of evaluation can be directed more narrowly to project impact, the effectiveness of project activities and policy orientation.

The recommendations advanced here carry implications for the development of procedures and for staff organisation and capacity which are not explored at present.

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30 April 1997



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## Performance Measurement and the UK ODA, US AID and World Bank<sup>1</sup>

### The United Kingdom Overseas Development Agency

#### Size and scope of activities

ODA's geographical departments are currently supporting about 3300 projects with annual funding of around £800 million and a total aid budget of £2,300 million. ODA was an early convert to the use of the logframe approach, which was introduced to improve project planning in the early 1980's. The positive experience gained from using the logframe coupled with political pressures to set objectives and undertake critical reviews of the aid programme, have led to logframe concepts being introduced into ODA's own management.

#### Objectives

ODA has had a mission statement since the 1980 Overseas Development and Co-operation Act of Parliament. The introduction of the logframe provided a stimulus towards an objectives-driven strategy, by requiring projects to specify their goals, objectives and outputs. Recognising that there is a large gap between specific project objectives and the aid programme as a whole a number of initiatives have taken place to identify intermediate aims and provide a coherent linkage. The most succinct phrasing of the mission statement and detailed aims was set out in the 1995 ODA Fundamental Expenditure Review (Box 5).

#### Box 5: New Mission Statement for ODA

ODA's goal is to improve the quality of life and reduce poverty and suffering in poorer countries.

ODA's purpose is to promote sustainable development.

To achieve this ODA's aims are:

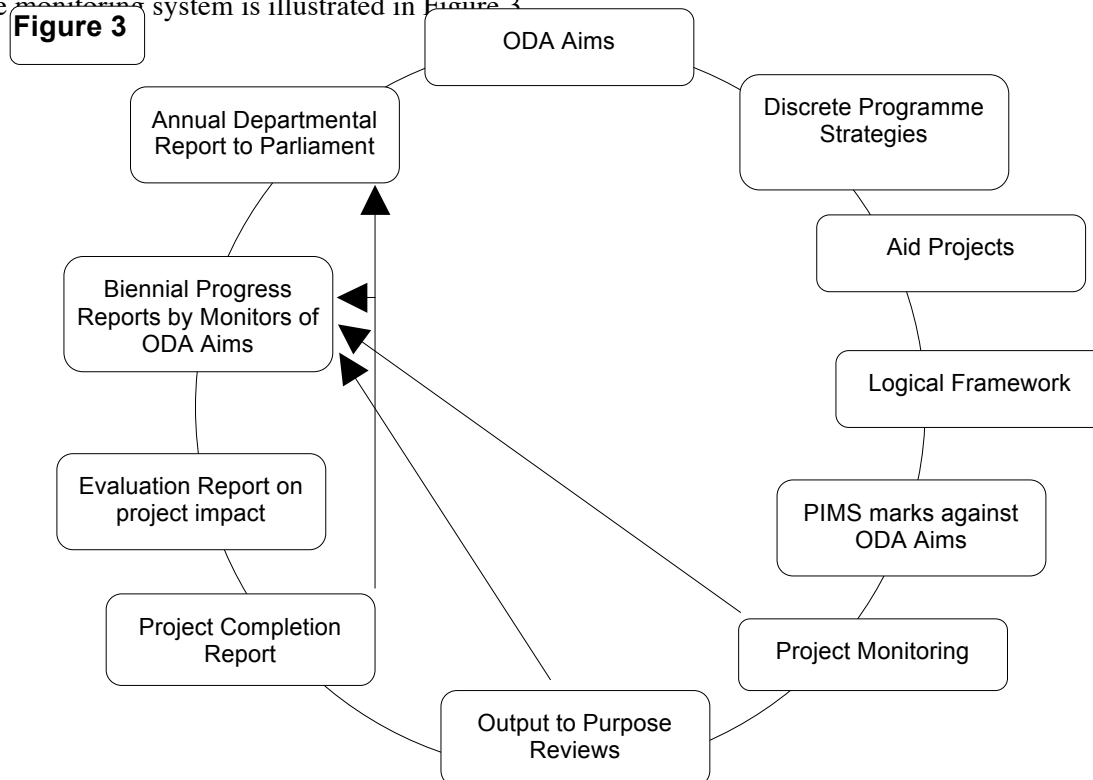
- to encourage sound development policies, efficient markets and good government;
- to help people achieve better education, health and opportunity, particularly for women;
- to enhance productive capacity and to conserve the environment; and
- to promote international policies for sustainable development and to enhance the effectiveness of multilateral institutions.

A feature of ODA's approach to monitoring in recent years has been to find mechanisms which allow conclusions to be drawn about the effectiveness of the aid programme from the evidence which emerges from individual projects. There is clearly a linkage between project success and the performance of ODA as an agency, but the performance against specific objectives available from project reporting does not fit smoothly into the broader phraseology of ODA's mission statement. A system of Policy Indicators was introduced under an earlier version of the Mission Statement and ODA Aims and it is this system which acts as a focus of progress reporting, drawing on information from project monitoring, reviews and completion reports. These are described below.

<sup>1</sup> The material in this annex draws on earlier work by ITAD on behalf of the European Commission, and reported in ITAD 1996; and on experience gained during assignments with the World Bank.

## Performance monitoring and measurement in the bilateral aid programme

The monitoring system is illustrated in Figure 3.



### Monitoring formats and reports

The components of the monitoring system are closely inter-related and are described in turn.

- **ODA Aims** The four Aims have been described above. (In previous years there were seven, but these were consolidated into four in 1995.) Three of the aims have a sectoral or thematic nature, the fourth refers to ODA's involvement with multilateral agencies. Programme strategies are devised to be compatible with those Aims and give rise to specific projects. A senior civil servant is appointed as the 'monitor' of each Aim, with responsibility for reporting.
- **Logical Framework** Projects are designed using an ODA-specific variant of the logical framework, which includes the specification of indicators.
- **PIMS (Policy Information Marker System)** During project design, each project is marked according to which Aim(s) it contributes to, either principally or significantly. Projects frequently contribute towards more than one Aim.
- **Project monitoring** takes place between project management teams and project advisers. Owing to the decentralised nature of ODA's management, this process occurs mainly overseas, with only summary information being reported to London. This is discussed further below.
- **Output to Purpose Reviews** A recent initiative is to replace the old mid-term reviews, with a new procedure, emphasising, as the title suggests, the success of a project in achieving its purpose, and to check on whether or not underlying assumptions are still valid.
- **Project Completion Report (PCR)** When 95 per cent of the funds for a project costing more than £500,000 has been spent, a PCR is written to assess implementation effectiveness. The PCR follows a specified format, calling for analysis of the extent to which the immediate and wider objectives were achieved, and lessons for future projects. ODA's Evaluation Department now compiles annual syntheses of PCRs, of which the second was published in June 1995.
- **Evaluation Report** The Evaluation Department has the capacity to undertake some 15 to 20 impact evaluation studies each year.
- **Progress Reports** The monitors of ODA Aims are planned to report every two or three years drawing on the information available from the strands of monitoring. The first report was written in 1995, and was assessed as having 'fairly soft' information on performance, by the team which prepared the Fundamental Expenditure Review. Key weaknesses were identified as: PIMS covered only 60 per cent of bilateral aid and very little multilateral expenditure; information about progress towards ODA's Aims during implementation (as opposed to progress towards the project's aims) was limited; and that more needs to be done to assess impact.

## Organisational structure

An important feature of ODA's operations is the organisational structure for administrators and technical advisors. Firstly, a high proportion of staff are dispersed in field locations through a system of regional Development Divisions. Secondly, technical advisors belong to technical divisions but the majority (71 per cent) are 'brigaded' to geographically-based units, such as the development divisions. Thus they report to geographical administrators for line management, but to their own technical advisors on technical issues. Thirdly, budgets are largely controlled through geographically-based units, but the monitors of ODA Aims are, for the three sectoral or thematic aims, the Chief Advisors of technical divisions.

## Conclusions

The approach which has been chosen is based on clearly stated public objectives for ODA as a whole, which are translated into specific Aims to guide both the design and implementation of projects, and the work programmes and activities of individual staff. This is a comprehensive system.

In order to track progress against these objectives the system uses monitoring procedures which are both interleaved and cross-cutting. The difficulty of aggregating diverse project targets is by-passed by interpreting project progress statements as contributions towards the four Aims. But the emphasis on individual project performance is retained by the use of project completion reports and impact evaluations. The concern that it is difficult to assess the likely success of a project during implementation is being tackled through the new Output to Purpose Reviews, which place the emphasis on signs of progress towards higher objectives rather than on outputs, which are usually easier to measure.

The role of the Evaluation Unit was reviewed in 1995 and recommendations were made that it should have the prime responsibility for developing performance measures for all aspects of ODA's operations, should undertake annual reviews of PCRs, should develop new ways of making its material more readily accessible and better presented, and should focus impact evaluation studies more closely on progress towards ODA's Aims.

## United States Agency for International Development

### USAID activities

USAID is active in 106 countries, with a budget averaging \$6 billion a year since 1990. The organisation has been in the forefront of initiatives to adopt modern management techniques and, in the 1960s, was the first to incorporate the logical framework. That trend has continued, with major developments in the past two years.

### Managing for results

The phrase which is used to describe the current approach in USAID is *Managing for Results*. This is a systematic way of establishing goals, objectives and performance indicators for the agency as a whole and for virtually all its programmes. The concepts can be seen to have their origins in the objective structure of the logframe, but in their present format show the vertical linkages implicit in the integrated logframe approach, in a highly developed way.

The concept of managing for results has led to new ways of specifying development activities, and new approaches to planning, budgeting and reporting. Many of these changes have taken place within the past two years, so it is too early to judge how effective they will be, but they have already given rise to dramatic changes to USAID's human resources, procurement, budget, and financial management systems.

The process of change has occupied staff of the agency over a protracted period of time. The origin of the present reforms dates back to 1993, though a key event was the publication of a report 'Making a Difference for Development' in the autumn of 1994. This report set out new ways of planning, achieving and judging development results by core Agency values of customer focus, results orientation, empowerment and accountability, and teamwork and participation. That was followed by a series of activities: establishing so-called Country Experiment Labs (like pilot tests) in 12 countries to test re-engineered approaches; regional bureaux conducted strategy reviews for every country programme and central bureaux developed programme strategies and conducted performance reviews; agency-wide performance indicator workshops were held in each programme area; lessons were gathered from the Labs; training programmes were started for all staff; plans were made to re-engineer the Agency's Human Resources systems; a Strategic Framework was adopted with indicators; Agency-wide sector and budget reviews were made; and policies were finalised for planning, monitoring and evaluation. The procedures were extensive, bringing together the results from pilot tests, statements of new procedures, a framework of objectives and training for staff.

### Projects to strategies

The single biggest change has been a move away from project-based activities. The agency no longer funds individual projects. Instead USAID seeks to achieve strategic objectives. These are significant development results which can be accomplished over 5-8 years, with contributions from USAID and its partners. Each USAID operating unit develops a strategic plan which lays out its strategic objectives, intermediate results (specific development outcomes directly related to activities funded, and equivalent to the *Project Purpose* in the EC logframe) and performance indicators for both strategic objectives and intermediate results. Based on headquarters approval of the strategic plan, operating units approve and implement activities to achieve the results set forth in the plan. Funds are provided by strategic objective, not for individual projects or activities, giving operating units flexibility to shift resources without elaborate documentation or lengthy approval processes. The achievement of these reforms has meant the adoption of:

- a mission and goals for AID;
- a common approach to planning and reporting of activities; and,
- a close linkage between the evidence about performance and decisions to continue providing resources.

The ways in which these have been addressed are explained in the following sections.

### Mission and goals

In the late 1980s USAID began to give more attention to programme level objectives and results. The creation of a Development Fund for Africa in 1987 acted as a spur, by requiring an increased focus on results and impacts. USAID's missions in Africa began developing strategic plans which identified medium-term objectives, shorter-term programme outcomes and performance indicators for

monitoring progress towards these results. They became, in the early 1990s, the basis for the Program Performance Information System for Strategic Management (PRISM).

PRISM was initially an attempt to gather information at the programme level, but it developed into a wider agency management system. Until 1994, strategic objectives were only set at the mission or country level. This approach resulted in objectives that were consistent with local realities, but varied widely across the agency as a whole and were not comparable and could not easily be aggregated. In 1994 USAID published its *Strategies for Sustainable Development*, which led to an *Agency Strategic Framework* being developed in 1995. This Framework provides an explicit link between US national interests, the goals of USAID, agency objectives to reach the goals, agency programme approaches, and performance indicators for each objective. Table 5 presents the agency mission, goals and objectives, with details for Goal 1, 'Broad-based economic growth achieved' as an example.

**Table 5 Example of Goal, Objectives and Indicators from USAID**

|                                                                                                            |                                                                                                                                                                                                                                                             |
|------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Agency Goal 1</b><br>Broad-based economic growth achieved                                               | <b>Indicators:</b> <ul style="list-style-type: none"> <li>• GNP per capita</li> <li>• Modified human development index</li> <li>• Incidence of absolute poverty</li> </ul>                                                                                  |
| <b>Agency objective 1.1</b><br>Strengthened markets                                                        | <b>Indicators:</b> <ul style="list-style-type: none"> <li>• GDP growth rate</li> <li>• Export growth rate</li> <li>• Agricultural growth rate</li> <li>• Investment growth rate</li> <li>• Modified economic policy performance assessment index</li> </ul> |
| <b>Agency objective 1.2</b><br>Expanded access and opportunity for the poor                                | <b>Indicators:</b> <ul style="list-style-type: none"> <li>• Calorie supply per capita</li> <li>• Trends in income distribution</li> </ul>                                                                                                                   |
| <b>Agency objective 1.3</b><br>Basic education expanded and improved to increase human productive capacity | <b>Indicators:</b> <ul style="list-style-type: none"> <li>• Primary enrolment ratios</li> <li>• Primary completion rates</li> <li>• Years to produce a graduate</li> </ul>                                                                                  |

## Indicators

The Strategic Framework sets out common indicators for goals and objectives to be monitored at country level. This approach has been taken because development is a gradual process, changes occur slowly and can often be measured only in multi-year intervals. These limits on the frequency with which reliable data can be collected sometimes conflict with the information needs of senior managers who must make annual decisions on programme priorities and resource allocations. Values for indicators of objectives and goals are all expected to be obtained from secondary sources of data.

For this reason, at the lower, implementation levels, the choice and number of indicators is left to the discretion of activity managers. USAID's experience has been similar in this area to the EC and other donors. There is a danger of a proliferation of indicators, managers are not well versed in the problems of collecting and managing data, and the indicators for activities may not associate very easily with the common higher level indicators for objectives and goals.

A problem common to all structured reporting is how to aggregate indicators from specific projects into a coherent statement about the whole portfolio. The two-level system adopted by USAID deals with the aggregation problem by changing the nature of indicators from activity-specific for projects to goal-specific at higher levels. There is a conceptual link between the indicators, but they are not linked in the cause and effect methodology of the logframe. This discontinuity makes it difficult to draw conclusions about the extent to which changes in the indicators may be attributed to USAID's investments. The availability of data also continues to downgrade the system. In the Strategic Framework Highlights box to the 1995 Annual Report on Program Performance it is noted that missions '*reported sufficient data to assess performance on fewer than half their strategic objectives*'.

## Field activity planning

Planning at the lower levels of management is still based on an objectives orientation, but instead of the logframe matrix, USAID is now using the objective tree for a visual presentation of the means-end relationship of activities and goals. The justification is that the objective tree can show more complexity, in terms of multiple causes and multiple levels of objectives, than can the simple 4x4 logframe. Many users of the logframe will already be familiar with the transposition of objectives from an objectives tree to the logframe matrix, so the conceptual relationship is clear. Some might argue that a good system of referencing would answer some of the criticisms made by USAID, but may still find the USAID approach an interesting one.

## R4 reporting

The third element of reform has been the adoption of a new approach to performance reporting from missions to headquarters. Annually, each operating unit is required to prepare a **Results Report and Resource Request (R4)** on progress towards its objectives and the actions taken (including evaluation results) to address programmes not meeting their targets. It also contains the unit's request for future funding. The R4s are the principal source of input for USAID's annual budget. The intention is to ensure programme performance is reflected along with other factors in resource allocations.

The strength of this approach is in matching the delegated power of authority given to operating units, with a matching requirement for performance reporting - *No results, no money*. But equally, there is flexibility at the country level to re-direct money away from poorly-performing activities into those which are showing promise.

Guidance on the content of the R4 is reproduced in Box 6.

### Box 6: Content of the R4

#### Part I: Factors Affecting Program Performance

- A. Progress in the Overall Program (i.e. goals/ subgoals, or other broad programmatic issues such as pipeline, if applicable)

#### Part II: Progress Towards Strategic Objectives (to be repeated for each strategic objective and special objective)

- A. Summary of data on progress toward achieving the strategic objective, which includes data on intermediate results where appropriate; this may take the form of a table.
- B. Analysis of the data; this section should provide background and insight into the meaning of the data.
- C. Evidence that USAID activities are making a significant contribution to the achievement of the strategic objective.
- D. Expected progress for the next year.

#### Part III: Status of the "Management Contract"

- A. Proposals for change/refinements at the strategic objective level, if necessary.
- B. Special Concerns or Issues (e.g. discussions of how the customer influenced the operating unit's assessment of progress based on the customer service plan, updates in global activities in country, special field mission or Bureau issues or concerns, etc.)
- C. An update of the review schedule for any activities which must be reviewed under special procedures (e.g. environmental requirements)

#### Part IV: Resource Requirements

- A. Program funding request by strategic objective
- B. Operating expenses
- C. Staffing
- D. Technical Support from USAID/W
- E. Program Development and Support (PD&S) Funding

Source: MF ADS 201 Clearance Draft, 8/10/95

## Evaluations

Performance monitoring and evaluation, are seen as different dimensions of the same management system in USAID. Evaluations are seen as a way of learning about experience: what is happening, what are the intended and unintended impacts of USAID's activities, why things happened the way they did.

But this common aim leads to contrasting views about how evaluations should be carried out. The conventional view, common among other donors, is that they should be independent, objective, rigorous, and be instruments to hold managers and contractors accountable for the results for which they are responsible. The minority view is that they need to involve managers, contractors, counterparts and beneficiaries. They should also be participatory, a shared learning experience. The changes re-engineered in USAID emphasise accountability and power with responsibility. Yet at the same time, create an environment which is conducive to learning. The extent to which the more participatory stance develops will depend on how much managers perceive a safe environment for learning from evaluations, rather than one which puts a premium on always giving the appearance of success.

A decision to carry out an evaluation is supposed to be driven by management need. Evaluations are not required as a matter of formality, only if the expected information to be obtained has significant value. The cost of evaluation has to be taken into account and justified by the management value of the information to be generated. If the information is not critical, an expensive evaluation is not justified. And when planning, costs have to be controlled by adjusting the scope of the evaluation or incorporating low cost methods.

## **Conclusions**

The reforms undertaken within USAID have created an organisation with the necessary structure and mechanisms for flexible, decentralised working under the umbrella of a defined common purpose. The components of the AID system are recognisable from the approaches being developed by other donors: clear agency objectives linked to programme (or project objectives); responsibility and accountability close to the point of implementation; and a form of performance reporting which feeds into portfolio management. USAID differs in placing greater emphasis on country level macro indicators and a tight link between country performance and future funding. This is an aggressive approach to the widespread challenge of giving real weight to findings from monitoring and evaluation.

The combination of studies, policy statements, procedures, pilot tests and training illustrate the effort that is necessary if new ways of working are to be introduced successfully into a large bureaucracy.

## **The World Bank**

The World Bank is the largest development lending institution. In 1995 it was responsible for 1,700 projects with an average loan size of US\$ 82m. Total commitments amounted to US\$ 143,081m.

### **Portfolio Management - A changing emphasis**

The current approach to operations management within the Bank reflects management's response to a major review of the Bank's operational effectiveness, the Wapenhans Report (Effective Implementation: Key to Development Impact, November 1992, prepared by the Portfolio Management Task Force - PMTF).

That report called, among other things, for a shift of emphasis towards support for implementation. In response, a programme of actions was initiated to cover a wide range of activities from country strategies through portfolio restructuring, project quality, project performance management and accountability.

The leading initiative was a strengthening of country-based analysis through an Annual Report on Portfolio Performance. To improve the quality of this analysis a coherent set of improvements has been made to project reporting and Bank supervision. These are described in turn.

### **Project arrangements for monitoring and evaluation**

A distinctive feature of Bank projects which is in contrast to many bilateral agencies is the separation of the Bank as a lender, from day to day project management, including the recruitment and control of consultants, which is undertaken by the borrower. Monitoring and evaluation is undertaken by the borrower and not by consultants reporting directly to the Bank.

A core recommendation of the Portfolio Management Task Force was for the Bank to develop a more analytically rigorous and objective methodology of monitoring project progress towards development objectives, relying on performance indicators. This approach required more attention during project appraisal to identify critical variables that should be tracked during implementation; to develop and test performance indicators; to train staff in project monitoring and evaluation; and to strengthen country capacity to monitor project performance and provide field data for indicators.

A review of monitoring and evaluation published in 1994 concluded that monitoring and evaluation performance was dismal:

- projects demonstrated low compliance with Bank operational directives and low ownership by both the Bank and by borrowing governments; and,
- the review observed a low frequency of significant plans for monitoring and evaluation in project documents, with financial indicators dominant over physical inputs and output indicators.

But three positive trends were identified:

- the development of lists of key performance indicators at sectoral and project levels;
- the emergence of new designs involving beneficiaries in a participative process where the use of information was an integral part of the design; and
- in the development of a learning culture by which monitoring and evaluation systems were integrated into project implementation mechanisms.

The conclusions prompted a follow-up report in 1995, which reviewed monitoring and evaluation arrangements in all projects prepared during the 1994/95 fiscal year. This second review made an assessment of the design of monitoring and evaluation for comparison with the previous report, and developed five criteria of good design in order to make the assessment more transparent.

- Clear project and component objectives verifiable by indicators;
- A structured set of indicators;
- Requirements for data collection and management;
- Institutional arrangements and capacity building;
- Feedback from monitoring and evaluation.

These criteria bring a balanced emphasis to the stages of a monitoring and evaluation system, by recognising the importance of collecting and using data, as well as the better-known concerns about project objectives and indicators.

The follow-up review concluded that half the projects had arrangements for monitoring and evaluation which reflected good practice. Nearly 40 per cent were assessed as having inadequate treatment and 10 per cent had negligible coverage. A key finding about the monitoring and evaluation designs was that the use of indicators showed a continuing trend of improvement, first identified in the 1994 report, but that the expanded treatment of indicators had not been matched by arrangements for data collection or capacity building.

Considerable work has been done to make Bank staff aware of participatory methods of project analysis and monitoring and evaluation, with the development of some good source material. But the evidence in the follow-up report was that techniques and new approaches are slow to be taken up on projects. One exception is the work on Systematic Client Consultation pioneered by the Bank in Southern Africa, which has spawned a number of projects. Zambia represents a good example of this approach, with sectoral programmes in agriculture, health, water supply and sanitation, and social protection. Paradoxically, the follow-up report found that these projects were not strong on indicators in the appraisal reports because details were left to be worked out with local staff during implementation.

### **Development of indicators**

After the Next Steps report a task force was assembled to guide the preparation of sectoral and project performance indicators. There are now thirteen sectoral volumes setting out guidelines for the ways in which task managers should approach selection of indicators, and giving illustrations and examples.

The approaches chosen vary by sector and reflect the interpretations of professional groups within the Bank. Thus education, population, health and nutrition, and transport, structure their approach in terms of the logframe hierarchy of project objectives, whereas other sectors stress more of a link to Bank supervision needs, or, in the infrastructure sectors, emphasise technical and financial performance of operating entities.

The presentation of indicators using a logframe structure is an interesting departure for the Bank, which hitherto has eschewed the logframe as a project design tool. As shown below, the logframe concept is also being used to frame supervision reporting.

### **Bank supervision**

All Bank projects are required to submit regular reports, often quarterly, about implementation and progress towards objectives. The structure of these reports is agreed between individual task managers and the implementing agency. The report does not lead directly to an aggregation within the Bank, but the contents are used by task managers in their supervision reporting.

Performance reporting within the Bank has for many years been based on regular, typically six-monthly, supervision missions led by the project task manager, and often including consultants or other Bank staff. Those missions draw on the information contained in project reports and the observations of mission members. Missions write a Back-to-Office Report and the task manager is required to complete a summary assessment, the Project Status Report, known as the Form 590.

The version of the Form 590 in effect since 1989 rated a project on the extent to which Development Objectives (DO) are expected to be achieved and on various performance categories that measure implementation progress. A summary Overall Status (OS) rating was also given.

The PMTF task force raised questions about the realism of portfolio assessments based on the Form 590, noting in particular that:

- the Form 590 ratings were based on a non-audited self-assessment system;
- the current rating system was not transparent (the Form 590 did not include a section for explaining the basis for the ratings); and
- there was the recurring problem that many projects received satisfactory ratings during supervision, only to be judged as unsatisfactory on completion (the so-called 'disconnect' issue).

The report concluded that, more than anything else, this seemed to reflect the lack of systematic attempts during project implementation to re-evaluate actual or expected benefits. The response has been to redesign the Form 590 to:

- separate ratings for expected development results from those for implementation progress;
- incorporate key indicators of development impact drawn from project reports;
- provide space for an explanation and justification of the DO rating;
- harmonise the evaluation guidelines and rating scale for the DO assessments during supervision with those for the Implementation Completion Report (ICR) and Operations Evaluation Department's (OED) Project Information Form for evaluating ICRs.

Overall, the changes have been geared around a more structured approach based on the logical framework approach to project design and evaluation. The information for the Form 590 is entered directly to computer and data fields which are derived from other databases are completed automatically.

### **The Project Appraisal Document**

As part of a parallel initiative to simplify business systems, the familiar Staff Appraisal report has been redesigned to present a more decision-oriented report. The changes are quite wide-ranging, but two key elements affect performance measurement. First, the requirement for a logical framework to be prepared as an annex to the new Project Appraisal Document (PAD), with performance indicators and descriptions of the M&E system in a separate Borrower Implementation Plan. Second, the risks assessed in the PAD and summarised as critical assumptions in the logframe, are included in the new F590, for regular review and reassessment.

### **The Annual Report on Portfolio Performance (ARPP)**

The Forms 590 are available for review on a Bank-wide open database at any time and the intention is for country departments to review them regularly. Meanwhile, the main analytical use of the data is the Annual Report on Portfolio Performance. The ARPP has a country and regional focus and is based on the Forms 590 plus Implementation Completion Reports, sectoral performance reviews and OED evaluations. It is prepared by a central unit, Operations Policy Department (OPR), using submissions from the Regional Vice Presidencies and sectoral reviews from the Central Vice Presidency Units. Some issues raised in the 1995 ARPP are given in Box 7.

In addition to the Bank-wide annual review process, Regional Vice Presidency Units and country departments meet twice a year to review the status of each country portfolio. Supporting analysis is also prepared for specific sectors or cross-cutting themes. For example, the review of Bank Environmental Project Performance uses a similar approach to the ARPP. Individual problem projects are listed together with an analysis of factors affecting unsatisfactory performance. Highly satisfactory performance is also reviewed.

### **Box 7: The Annual Report on Portfolio Performance**

The ARPP is a major statistical analysis of the Bank's portfolio. A total of 25 pages of text are supported by 55 statistical tables covering:

- Portfolio size and composition
- Portfolio performance (based on the Form 590 ratings)
- Portfolio management (an update of initiatives to improve the quality of projects)
- Prospects for the future

The report summarises performance against ratings of projects' likelihood of achieving development objectives, and implementation progress. The focus of the analysis is on the projects rated as unsatisfactory (problem projects) by country, region and sector. In 1995, 11.5 percent were rated as problem projects for development objectives and 17.8 percent problem projects for implementation progress.

The 1995 report included a discussion of the following measures to improve quality at entry.

- a) increasing borrower responsibility for and beneficiary participation in project preparation
- b) reducing excessive project complexity
- c) basing lending on the conclusions of a public expenditure review
- d) encouraging governments to adopt policy improvements before approval of projects
- e) pilot-testing new approaches
- f) ensuring readiness for implementation through more effective implementation planning

*Source: ARPP - Fiscal Year 1995*

### **Operations evaluation**

The Operations Evaluation Department has independent status within the Bank and reports directly to the Board. OED's activities are linked directly to the closing stages of evaluation during the project cycle.

All projects have to prepare an Implementation Completion Report. These are reviewed by OED, which prepares a Project Information Form. A sample of projects, selected by OED, often as part of a thematic study, are evaluated in greater depth, with a Performance Audit Report. The findings from thematic and sectoral evaluation studies conducted by OED are presented directly to the Bank's Board and management is required to make a formal response to the recommendations.

### ***Implementation Completion Report (ICR)***

The ICR is completed by the project task manager, following a completion mission which generally constitutes the final supervision mission. The borrower is asked to prepare its own evaluation report which is attached to, and contributes to, the ICR. The ICR contains a mixture of assessments and statistical information, summarised in Box 8 on the following page.

All ICRs are analysed by OED who complete a Project Information Form (PIF), which is a computerised 25 page rating questionnaire with a detailed coverage of the project design and implementation, plus an assessment of the priority for inclusion of that project in a subsequent performance audit and impact evaluation study.

**Box 8: Statistical Content of the Implementation Completion Report**

|    |                                                                                                        |
|----|--------------------------------------------------------------------------------------------------------|
| 1  | Summary of assessments                                                                                 |
| A  | <i>Achievement of objectives (11 categories): substantial/ partial/ negligible/ n/a</i>                |
| B  | <i>Project sustainability: likely/ unlikely/ uncertain</i>                                             |
| C  | <i>Bank performance (4 categories): highly satisfactory/ satisfactory/ deficient</i>                   |
| D  | <i>Borrower performance (4 categories): highly satisfactory/ satisfactory/ deficient</i>               |
| E  | <i>Assessment of outcome: highly satisfactory/ satisfactory/ unsatisfactory/ highly unsatisfactory</i> |
| 2  | Related Bank loans/credits                                                                             |
| 3  | Project timetable                                                                                      |
| 4  | Loan/credit disbursement: cumulative estimated and actual                                              |
| 5  | Key indicators for project implementation                                                              |
| 6  | Key indicators for project operation                                                                   |
| 7  | Studies included in project                                                                            |
| 8a | Project costs                                                                                          |
| 8b | Project financing                                                                                      |
| 9  | Economic costs and benefits                                                                            |
| 10 | Status of legal covenants                                                                              |
| 11 | Bank resources: staff inputs                                                                           |
| 12 | Bank resources: missions                                                                               |

*Source: BP 13.55*

**Annual Review of Evaluation Results**

Each year a review is prepared of the results from evaluation studies. The twenty first report was prepared in 1995, covering 246 reviews of completion reports and a further 108 performance audit reports. The performance record shows that:

- sixty six percent of operations had satisfactory outcomes;
- forty four percent of operations were expected to sustain their benefits throughout the operational phase that follows the completion of Bank loan disbursements;
- institutional development goals were substantially achieved in 39 percent of the operations;
- adjustment operations performed better on average than investment projects.

The review goes on to analyse the determinants of project and country performance; specific themes concerning poverty, the environment and private sector development addressed in recent evaluations; and to look at development effectiveness. The report includes 70 pages of text and 30 pages of statistical annex tables.

**Conclusions**

There are major differences between the operations of the World Bank which is a lender for development and the predominantly grant-based finance of other donors. However, despite these differences there are valuable lessons to be learnt from the Bank's operations.

- First and foremost is the extent to which there is common ground in the efforts to identify and operationalise indicators for project monitoring. The approach in the Bank has been to prepare guidelines of sectoral and project indicators. This runs counter to the workings of the logframe approach, where the emphasis is on defining indicators mutually with the implementing agency and based on the details of the logframe. However, the indicators which have been developed are a potentially valuable reference source.
- The second area of importance is the format and content of the Form 590. This has a good coverage and range of information and is a useful model although not all agencies like ratings to assess performance. Particularly important, is the way in which the findings in the Form 590 are used for analysis.
- The third area is the highly structured sets of procedures by which projects are analysed at completion, to assess their achievements and the performance of the Bank and the Borrower. The present system is very detailed and time-consuming for OED, with little direct benefit, but the institutional determination to learn from experience is a significant illustration of the culture of the Bank.
- The fourth area is the work done by the Bank to examine arrangements for monitoring and evaluation and to improve designs of new projects. This is a good lesson that new procedures count for nothing if they are not properly adopted.

# Performance Management Experience in Australia, and New Zealand Examples from UK<sup>1</sup>

## AUSTRALIA

### Introduction

The focus of this paper is on the experience of the Australian Federal Government and the Australian Public Service (APS) in designing and implementing performance measurement systems and procedures. The paper summarises the main features of the Australian system, provides comment on what results have been achieved so far and concludes with some ideas about the implications of the Australian experience for UNDP and its programme of support to developing countries.

The research method was based on the collection, reading and analysis of background reference materials and the conduct of two main interviews with officers from the Department of Finance (DoF) and the Department of Employment, Education, Training and Youth Affairs (DEETYA).

The information used to frame this report has been gleaned from secondary sources and a very limited number of interviews. The opinions given in this report therefore largely reflect the opinions of others as interpreted by the author. All errors or omissions remain solely the responsibility of the author.

Many thanks to Mr. Keith Mackay of the DoF, and Messrs Phil Potterton and Earl Dudley of DEETYA, for the generous contribution of their time and expert knowledge.

### Background to performance measurement within the Australian Public Service

The Australian Government initiated a process of public sector reform in 1983. The main purpose of these reforms has been to:-

- improve the efficiency and effectiveness of government activities and service delivery
- provide better value for money
- emphasise outcomes, access and equity
- improve systems for prioritising and targeting the use of available Government resources, and
- reduce overall government expenditure

These main elements of these reforms have included:-

- systems of published forward estimates to provide line agencies with more certainty about present and future resource allocations to support ongoing programmes
- the publication of reconciliation tables which show and explain deviations between estimates and actual budget allocations (to promote transparency)
- portfolio budgeting, which devolves priority setting to individual portfolios (within overall expenditure ceilings)
- managing and budgeting on a programme basis, with less emphasis on the direct control of inputs and activities and more on accountability for achieving results/outcomes (meeting service delivery objectives).
- devolution of greater management responsibility and authority to programme managers<sup>2</sup>. This has included the development of a running cost system which consolidates all administrative and salary expenses into one budget item and gives programme managers the authority to allocate these monies as they see fit. The quid pro quo has been increased accountability of programme managers for delivering and demonstrating results.
- commercialisation and user charging
- improved reporting to parliament, and
- a systematic approach to programme evaluation

During the 1990's there has also been an increasing focus on:-

- assessing and meeting client needs
- contestability of service delivery (between government and private sector providers)
- greater reliance on purchaser/provider arrangements
- greater co-ordination of government services - one-stop shop
- accrual accounting

<sup>1</sup> The material in this annex is derived from working papers prepared for this consultancy after visits to government departments in Australia and New Zealand.

<sup>2</sup> The common catch cry in this regard is "Let the managers manage".

- benchmarking public sector activities against best practice in public and private sectors, and
- the use of appropriate Information Technology to provide management information

The election of a new Liberal/National party coalition government in early 1996 (following almost 15 years of Labour Government) has added impetus to this agenda of reform.

### Performance information

In order to manage these reforms effectively, significant emphasis has been placed on the collection and use of performance information within the APS in order that progress towards objectives can be measured and evaluated.

A recent report by the Australian National Audit Office<sup>3</sup> describes performance information as follows:-

*“Performance information can be simply described as evidence about programme performance which is collected and used systematically. However, it encompasses a range of activities such as the setting of objectives, strategies, indicators, targets, standards and benchmarking for performance. Such information can be expressed both quantitatively and qualitatively....”*

The same report goes on to emphasise the importance of **reporting** this information and highlights the link between performance information and effective programme evaluation.

*“Internal performance reporting is used to support day-to-day decision making such as monitoring progress, expenditure, client service and so on. While internal reports should include results in terms of inputs, outputs and outcomes for the decision makers, external reports are the main means by which interested parties, such as the Parliament and the public, obtain information about programme efficiency and effectiveness. Without such information, particularly in relation to programme effectiveness, managers cannot take informed decision about the allocation and use of programme resources (or) the future direction of programmes. Such information ... is also essential for programme evaluation..... .”*

A distinction is thus drawn between performance information (PI) and performance evaluation, while recognising that the two are integrally linked. The collection of PI is an **ongoing** management responsibility within line agencies, while performance evaluation is carried out **periodically** and usually involves input from specialist evaluation units within line agencies (where these exist) and (where requested) from the Department of Finance.

In reviewing the available literature, it would appear that, on balance, greater progress has been made in institutionalising the conduct of programme evaluations than in strengthening the ongoing collection and use of performance information within line agencies. In order to address concerns about the quality of performance information, a Performance Information Review (led by Finance and ANAO) was initiated in 1995, and is planned to last for 3 years. This review will cover all departments and some selected agencies and will examine each programme down to the level at which performance is publicly reported (in most cases at the sub-programme level). The review is designed to establish, in a constructive and consultative manner, the quality and clarity of existing programme objectives and the performance information being generated to measure progress and outcomes. Best practice will be identified and recommendations made to Department's for improvements<sup>4</sup>.

### The evaluation strategy

The Australian Government's evaluation strategy has been a key component of the management reforms. The main elements of the strategy were agreed by cabinet in 1987 and 1988 and specified 3 main objectives, namely:-

1. to encourage programme managers to use evaluation as a matter of course
2. to strengthen accountability in an environment of devolved management responsibility by emphasising transparency, and
3. to provide fundamental information about programme performance to cabinet, particularly during annual budgeting process

<sup>3</sup> 'Performance Information - Department of Employment, Education, Training and Youth Affairs' Audit Report No. 25, May '96, ANAO

<sup>4</sup> One of the first of these reviews was conducted by the ANAO on DEETYA in 1995

The first two of these objectives focus on helping to measure and assess efficiency and effectiveness **within** programmes, while the third is more concerned with assisting in the prioritisation **between** programmes and assessing the continued relevance of programme objectives in the light of current circumstances, including government policy changes.

The evaluation strategy incorporates a number of formal requirements which are overseen by the Department of Finance, namely:-

- every programme must be evaluated every 3-5 years
- annual portfolio evaluation plans (PEPs) must be produced (with a 3 year coverage) which detail when each major programme evaluation will be carried out
- any new policy proposal must include a plan of action for evaluation, and
- completed evaluation reports must be published (to promote accountability and transparency)

As a result of implementing this strategy and enforcing these formal requirements there is evidence of a dramatic increase in the **quantity** of evaluation information being produced over the past decade. About 530 evaluation reports have been published over the past four years, and 160 Performance Evaluation Plan (PEP) evaluations were scheduled to be completed in 1996. The concern now, however, is being increasingly focused on the **quality** and **utility** of the information rather than on the quantity.

### What is measured?

The focus of measurement within the APS used to be on inputs, activities and outputs - the primary concerns of day to day management in **delivering** services. Part of the public sector reforms has been to give more emphasis to measuring and reporting on outputs and outcomes/results and their cost effectiveness.

The key issue here is one of balance. While there is a recognised need to collect better information on the higher order (longer term) objectives, there remains a need to collect and use management information on the **process** by which such objectives are achieved. When deciding what to measure, careful consideration must therefore be given to the purpose to which that information will be put and who is going to use it. Performance information must have relevance to those responsible for line management, otherwise it won't be effectively collected or used. Understanding the distinction between monitoring and evaluation functions and responsibilities for carrying them out is clearly important in this regard.

The increasing emphasis being given to the **quality** and **usefulness** of performance information also requires that information be limited (more information is not better information) and greater attention be given to how it is presented and reported.

It also appears that more emphasis is now being given to improving the collection and use of **qualitative** information to complement the **quantitative** information that is already being generated. This is an interesting development, given the usual preference of central agencies such as Finance and the Audit Office to concentrate on the numbers.

The expression "What gets measured gets managed"<sup>5</sup> emphasises the important influence that the available information can have on decision making. It also infers that if you are not measuring the right things, you won't be managing the right things. The point to be emphasised here is that objectives must be clearly articulated, and the logical hierarchy of means to the desired end must be understood, if the right performance indicators are to be identified, selected and used. A quote from a report for the Department of Finance on "Effective Reporting in Programme Performance Statements" by S. Funnel (1993) is illustrative of this potential problem:-

*"There is a great deal of variation amongst programmes in what they call objectives, strategies, performance information and outcomes. Without the benefit of subheadings the reader could easily mistake strategies for objectives, outcomes for strategies, objectives and performance information for strategies and so on".*

### The role of the Department of Finance

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<sup>5</sup> This expression was used by those interviewed within both DoF and DEETYA and appears in some of the background literature that was reviewed.

The Department of Finance is the principal architect and overseer of the Government's evaluation strategy. Its role has been pivotal in directing and 'pushing' the required procedural and institutional reforms within the APS. Without strong leadership from the top (and the clear support of Cabinet) the significant level of institutionalisation of the evaluation strategy within Portfolios would not have occurred.

The DoFs main focus has been on evaluation activities, external reporting by agencies and accountability, rather than on the ongoing collection of performance information within Departments and internal (corporate management) reporting.

Through the PEP process, each Department is **required** to conduct a planned series of programme evaluations - designing and implementing these evaluations is their responsibility. The DoF's role is more concerned with compliance with requirements, the quality of information and the usefulness of evaluation results in improving resource allocation decisions - particularly at the Cabinet level.

The DoF provides support to line agencies mainly through its specialist evaluation unit (which is part of the Evaluation and Staffing Analysis Branch). A number of services are offered (which Departments and agencies are free to accept or not) including:-

- **Training and skills development.** Finance runs one day "Doing Evaluations" Workshops. Since 1991 they have conducted 62 workshops in all states - attended by over 2,000 people.
- **Advice.** Finance offers technical advice in financial and expenditure policy analysis and evaluations.
- **Manuals.** A handbook called "Doing Evaluations: A practical guide" has been published and distributed (1994).
- **A register** of evaluation reports is kept and copies provided (some at a cost) on request
- **Networks of evaluators** are supported to help develop a pool of experienced and skilled staff who can contribute to improving the quality of public sector programme evaluations

Finance also participates **directly** in selected evaluations at the request of agencies. Portfolios have increasingly come to appreciate that the conduct of rigorous evaluations in which Finance has been involved can be a useful way to enlist joint ownership and commitment to evaluation findings. This commitment has often eased the passage of new policy proposals through the budget process<sup>6</sup>.

The DoF sees itself as playing an important role in promoting the **culture** of performance measurement and evaluations within the APS. This has also required that the DoF itself re-orient its Supply Divisions away from a focus on budget detail and savings to deal more broadly with the what and why of resource allocation decisions. This is an ongoing process which includes in-house training and seminars.

DoF also plays the important role of devils advocate, for example when new policy and expenditure proposals or review reports are tabled. Its role is to ask difficult questions about such things as efficiency, effectiveness, appropriateness, clarity of objectives and intended approaches to performance measurement, in order that these issues are adequately considered and addressed by programme managers.

### **The experience of DEETYA**

The experience of DEETYA in implementing performance measurement systems is summarised briefly below. The information provided has been gleaned from two main source documents<sup>7</sup> and from the interview conducted with DEETYA officers.

The ANAO audit notes that:-

*"In general, the audit found that the Department has developed performance indicators which would provide information on the achievement of its objectives in terms of efficiency and economy. In most cases effectiveness indicators had also been developed which measure, at least in part, the achievement of these objectives. ....The majority of sub-programmes has also established client*

<sup>6</sup> A survey (ref?) of Supply Officers within DoF indicates that Finance was involved in 60% of 155 evaluations which had some influence on new policy proposals submitted in the 1992-93 Budget

<sup>7</sup> Performance Information, DEETYA, Audit Report No. 25, 1995-96, Australian National Audit Office; and Review of the Evaluation Function in DEETYA, L.Crossfield and A. Byrne, Feb 1994, Australian Government Publishing Service.

*service measures, developed targets and had undertaken at least some internal benchmarking.”*

- It is recognised that there is a need to collect better information on the longer term results of programmes (effectiveness) to complement the programme output indicators which help measure economy and efficiency. An appropriate balance is required. It is also recognised, however, that these long term indicators are generally more difficult to specify, collect and use.
- The evaluation strategy has been institutionalised at high levels within the agency (macro-corporate) but not so much at programme management levels. A general feeling remains in many quarters that this is an imposed bureaucratic requirement. There is nevertheless a slow but sure ‘cultural’ change within the Department towards accepting the importance of collecting and using performance information.
- The CEO has an important influence on the degree to which performance measurement is prioritised within the portfolio. The level of commitment to performance measurement at the top level makes a significant difference to the institutionalisation of systems and procedures.
- Because the State Governments have the primary responsibility for both funding and implementing **education** programmes, DEETYA (which is a Commonwealth/Federal agency) puts less emphasis on collecting performance information for these programmes. The bulk of performance measurement (both through evaluations and ongoing PI collection) is instead focused on **employment** programmes, which is a Federal responsibility. The link between responsibility/accountability for programme implementation and responsibility for performance measurement is an important issue to keep in mind.
- The issue of **causality** in attributing results to programme interventions is one that requires specific attention. For example, it has been recommended in the ANAO audit report that an additional question(s) be incorporated in the Post Programme Monitoring survey to allow the direct measurement of the impact of participation in labour market programmes in terms of gaining full or part-time unsubsidised employment. The survey questionnaire does not currently allow this causal link to be clearly demonstrated.
- DEETYA has a specialist Evaluation and Monitoring Branch (EMB). It would appear that having this unit has been critical in operationalising the evaluation strategy within DEETYA. The EMBs main role has been to design and conduct evaluations within the Department, rather than to provide advice or training to programme managers<sup>8</sup>. This approach has been followed partly in recognition of the fact that effective and useful evaluations **require specialist skills** and a strong analytical capacity.
- Who undertakes the evaluation seems to have an impact on how much use is made of the evaluation findings. Those undertaken by programme areas alone and by EMB have a clear majority of evaluations having major or medium impact ratings, as opposed to evaluations undertaken by commercial or academic consultants which have significantly lower impact ratings<sup>9</sup>. This would appear to support the view that if you want evaluation results to be effectively **used**, the involvement of ‘internal’ managers and specialist staff is important. There is nevertheless reported to be general agreement within DEETYA that greater involvement of the DoF in conducting evaluations would be on the whole beneficial.
- The use of appropriate **targets** and **benchmarks** is important in making performance information relevant and useful to management decision making. Results of performance measurement must be compared against a planned target or benchmark if the user is to understand whether or not the results are ‘good’ or ‘bad’.
- The quantity of information is less important than its quality and there are very real practical constraints on the amount of performance information that can be generated and used. DEETYA has reduced the number of evaluations it has planned to undertake in its PEPs - from a rather unmanageable total of 40 in the 1990 and 1991 PEPs to around 10 in 1992 and 1993.
- The dangers of overselling evaluation by claiming too much for it need to be recognised. Need to be realistic. The principle of ‘Horses for Courses’ is important in choosing the appropriate type of evaluation activity. The eventual relevance of evaluation findings are also to a large extent dependent on having the right issues on the agenda sufficiently far in advance.
- The presentation of information is also critical in ensuring it is useful and used. The key issues here are the **timely** release of results, both internally and externally, and the way in which the information is presented so that it is easy to understand. The Audit office expressed some concern about the timely release of evaluation results to **external** users, and this has been agreed in principle by DEETYA.

<sup>8</sup> The 1994 review of the evaluation function within DEET notes that “For DEET, EMB is more an evaluation factory, while in other portfolios the evaluation area is primarily a source of advice”.

<sup>9</sup> Survey of completed evaluations between 1990 and 1992

- Client surveys are an important part of DEETYA's performance measurement system
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### **Costs of performance measurement**

There is no documented evidence of the overall costs of introducing performance measurement into the APS, however those interviewed felt that costs were small in relation to the potential benefits.

### **How have the results been used?**

#### **Finance**

Finance's main interest and concern is in the use of evaluation findings in the budget formulation process, rather than on how performance information is used to improve the management of service delivery within line agencies.

Surveys of the use of evaluation findings in budget preparation are co-ordinated by the General Expenditure Division of the DoF with the cooperation of Supply Divisions. The surveys record the views of finance officers about the use of evaluation findings in budget preparation, particularly for New Policy Proposals (NPPs) and Savings Options (SOs), and the extent to which Cabinet's decisions were influenced by evaluation findings. Some results from the 1994-5 survey (the fifth such survey to be conducted) are shown below:-

- in aggregate terms, there was a marked increase in the proportion of proposals (NPPs and SOs) influenced by evaluation - from 52% in 93-4 to 75% in 94-5.
- there has been mixed experience with surveying the impact of evaluation findings on Cabinet decisions - but overall evaluation was thought to have influenced 68% of the \$3740m of proposals considered (NPPs and SOs) in 1994-95, whereas only 19% of the budget was thought to have been influenced in 93-4.

These results indicate that evaluation results are being actively used by line agencies and Finance in putting together NPPs and SOs, but less so by Cabinet Ministers who make the final budgetary decisions.

### **DEETYA**

A distinction can be made between the use of **evaluation findings** and the use of **performance information** more generally.

Within DEETYA it would appear that evaluation findings have been used more in the formulation of policy and in determining the relative priorities between programmes, whereas performance information is used more to influence programme management (service delivery decisions). This is as to be expected.

The Evaluation and Monitoring Branch seems to have focused its attention more on the conduct of evaluations than on providing ongoing support to the development of performance information systems for programme managers. Nevertheless, the results of evaluations are seen as having contributed to better programme design and implementation and have been used to influence programme management decisions.

It should be noted, however, that there is reported to be significant variation between the degree to which different divisions within DEETYA have institutionalised and used performance measurement. Reasons for this variation might be mainly attributed to the nature of the programmes being implemented (some are more amenable to performance measurement than others) and to the degree of understanding of, and commitment to, performance measurement by programme managers and their staff.

While not referring specifically to any specific agency, a report by M. Duckett on 'Performance Reporting in Commonwealth Annual Reports' (1995), states that:-

*"...the quality of performance information provided in Commonwealth annual reports is generally poor. The majority of reports focus on descriptions of activities and initiatives undertaken by agencies.... rather than on outcomes achieved."*

### **Lessons from implementing performance measurement**

The following dot points aim to highlight some of the main lessons which have emerged from the implementation of performance measurement systems within the APS:-

- There needs to be a supportive (and relatively stable) **policy and institutional framework**. This should include, *inter alia*, the existence of formal cabinet endorsed evaluation requirements, support of key Ministers, mandate given by Cabinet to Finance to implement systems at the macro level, strong support of portfolio heads, devolution of management responsibility, cash ceilings, forward estimates, etc.
- It is a **long term process of change** which must achieve sufficient momentum and consensus to ensure evaluation is accepted as a worthwhile activity. There is a need to develop a culture of evaluation across the service. This is not easy and takes time and persistence. It is an ongoing process of improvement and refinement which requires continuous learning.
- Central **monitoring and evaluation units** within portfolios are required to drive the process forward and provide the necessary level of technical and analytical skills. The design and implementation of effective/useful PI and evaluation systems is not easy.
- **Networks** of evaluators need to be built up so that the skill base does not become (or remain) a constraining factor.
- **Training** and skills development must be given adequate emphasis.
- Performance information and evaluations are mutually supportive and complementary. Good evaluation and good performance information go hand in hand.
- Performance indicators themselves do not generally tell us **why** performance is good or bad. Allow for further examination of underlying issues. It is this follow-up examination and resulting activities which impact on performance. Performance indicators alone are usually not sufficient to provide an overall measure of performance. Requires additional qualitative information, surveys or evaluation activities. Don't expect too much from PI and evaluations - they are only a **tool** to help improve resource allocation and management decision making.
- The **quality** and usefulness of performance information and evaluation findings are more important than the **quantity**. There needs to be a clear focus on collecting only that information that will be used (don't have too many indicators or try to conduct too many evaluations. The concept of 'Minimum Information Systems' is relevant in this regard.
- Specific and sustained attention needs to be given to finding and using appropriate indicators for measuring **outcomes**. This is often the greatest challenge when moving away from an inputs/activities/outputs focus. There is also a need to balance quantitative measurement with more qualitative indicators of programme performance.
- **Objective setting** needs to be clear and well structured and directly linked to the selection of appropriate performance indicators. The Logical Framework Approach to project design emphasises these requirements (both the vertical and horizontal logic) and is a valuable analytical tool designed for this purpose.
- Adequate emphasis should be given to identifying appropriate performance standards and targets, and to using **benchmarking** principles. Indicators and targets should be set in the context of what is understood to be best practice, through reference to the experience of other agencies undertaking the same or similar tasks.
- The information generated from performance measurement systems must be **used**, otherwise cynicism is built among managers about the purpose of the activity. There must therefore be a **management** information focus and adequate attention paid to the way in which information is reported and presented.
- Performance measurement systems involve the systematic collection, recording, analysis, reporting and use of information. The availability and use of appropriate **Information Technology** (computer driven systems) can be almost essential if the significant volume of data is to be managed, and turned into management information in a timely manner

### Implications for UNDP

Australia is seen, in the international context, as being at the leading edge of developing performance measurement systems in the public service. How then can Australia's experience be used to guide the development of more effective performance measurement systems within the countries that UNDP is assisting?

There are clearly some significant differences between the social, political and economic environment in Australia as compared with many of the developing countries that UNDP provides support to. Australia's relative stability, high skills base, access to technology, democratic institutions and free press are all important supporting factors when trying to institute improved performance measurement systems.

There are nevertheless some implications which can be highlighted, namely:-

- Importance of sound programme design and the establishment of a clear hierarchy of well specified objectives - Logframe approach is a relevant and valuable analytical tool
- Projects and programmes need to be set in the context of the wider policy environment and institutional framework. If this is not supportive of change - sustainable improvements are likely to be elusive if not impossible.
- Management culture needs to change. This a long term process and requires persistence.
- Management structures must be devolved to let the managers manage.
- Responsibility and accountability must be linked - devolved financial management structures are important.
- For evaluations, who does it influences the use of results - internal involvement/commitment is important.
- There needs to be adequate investment in systems and skills development - this should be incorporated (as appropriate) into programme design.
- Establish clear formal reporting requirements and provide documented guidelines as to what the requirements are.
- Employ the right type of people (particularly senior managers) to help promote a culture of learning and client service.
- Incorporate client surveys into performance measurement systems (where appropriate) to ensure that their opinions are known
- Promote the concept of Minimum Information Systems. Don't try to collect too much information - only what is likely to be used.
- Don't expect miracles. Performance measurement should not be over-sold as the final solution to improving resource allocation and management systems - it isn't.

## NEW ZEALAND

### Introduction

The focus of this paper is on the experience of the New Zealand Government in reforming its public sector and designing and implementing performance management systems and procedures. The paper summarises the main features of the New Zealand system, provides comment on what results have been achieved so far and concludes with some ideas about the implications of the New Zealand experience for UNDP and its programme of support to developing countries.

The research method was based on the collection, reading and analysis of background reference materials and the conduct of 4 main interviews (in Wellington, New Zealand) with officers from the Education Review Office (ERO), the State Services Commission (SSC), the Development Cooperation Division of the Ministry of Foreign Affairs and Trade, and the Treasury.

The information used to frame this report has thus been gleaned from secondary sources and a limited number of individual and group interviews in Government offices. The ideas and opinions provided in this report therefore largely reflect those of others, either as quoted or interpreted by me. All errors and omissions remain solely my responsibility and I hope that the ideas of others are adequately acknowledged.

Many thanks to all those who contributed their views, particularly Kevin Clarke (DFAT), Judith Aitekin and Francis Salt (ERO), Lynn Provost (SSC) and Jim Brumby and Tanya Stocks (Treasury) for their time and help in arranging meetings in Wellington.

### Background to public sector reform in New Zealand

An understanding of 'Performance Management' or 'Measurement' within the New Zealand state sector must be set within the wider framework of public sector reforms that have been developed and implemented in New Zealand over the past 14 years. A review of the background to these reforms is therefore provided.

New Zealand's process of financial management reform<sup>10</sup> (FMR) began shortly after the General Election of 1984 and is still underway.<sup>11</sup> The main impetus for reform was the dire condition of the New Zealand economy in the early 1980s. The depth of the economic morass that the country found itself in meant that a change of course was not an option, but rather an urgent requirement. Productivity, per capita incomes and real GDP per worker were all stagnant or declining between 1974 and 1983, inflation was high and unemployment rising. The government's initial response was to provide more of the old medicine, namely by investing in large infrastructure/resource development projects, providing subsidies for domestic industry and tightening government regulations over economic management (e.g. wage and price freezes). Interest rates shot up as did the budget deficit. This was topped off by a currency crisis in 1984 which resulted in a devaluation of the dollar by more than 20%.

With a new Labour Government elected in 1984, expectations were high for radical reform in the way that Government operated. At the same time there were new economic and management concepts available and being tested elsewhere in the world (namely Australia and the UK) which NZ politicians and bureaucrats were eager to try.

The underlying principles and theories guiding the NZ reforms have been based on (i) a faith in the market, (ii) rejection of the 'big-brother' role of government, (iii) a focus on the needs and concerns of clients, and (iv) organisational and managerial reform which have emphasised managerial discretion and accountability.<sup>12</sup>

The NZ reforms have also been substantially based on - and implemented through - the enacting of specific legislation, namely:-

<sup>10</sup> While referred to in some of the literature as Financial Management Reform - the changes that have been put in place cover all aspects of public-sector management.

<sup>11</sup> It is important to emphasise that what is referred to as 'the reforms' is an ongoing process of change. While it is convenient to see these reforms as having been initiated in 1984 - there is no expected completion date.

<sup>12</sup> The body of ideas known as 'new institutional economics' has provided much of the intellectual underpinning for transforming the role and activities of the State sector in new Zealand.

- the State Owned Enterprise Act of 1986 (limiting the role of SOEs where the private sector can operate more effectively);
- the State Sector Act of 1988 (transforming permanent departmental heads into CEOs on fixed term contracts);
- the Public Finance Act of 1989 (shifting all departments from cash to accrual accounting and requiring that statements be published and made publicly available); and
- the Fiscal Responsibility Act of 1994 (which requires that the government establish and disclose medium and long-term economic and budgetary objectives, and strategic and key result areas that indicate the government's programme and spending priorities).

This legislative approach to reform has been possible in New Zealand because it is a unitary government, has a one house Parliament and (until late 1996) had a first past the post electoral system which typically allowed one party to hold an absolute majority in Parliament. This has meant that radical reforms could be implemented without the dilution that would usually be required if reliant on gaining the support of coalition partners.

The economic and political circumstances that have led to, and driven, the state sector reforms can help explain the approach that NZ has adopted, particularly when compared with the Australian experience. For example, whereas Australia's circumstances in the 1980s required the development (by consensus) of new public sector (financial) management systems and tools that would *facilitate the strategic prioritisation of expenditures across programmes and projects*, New Zealand urgently required (and had the political structure to allow) a more complete overhaul of management systems that focused on *encouraging (and enforcing) greater technical efficiency in the use of budgeted resources* within Departments<sup>13</sup>. Thus the Commonwealth of Australia's greater focus on performance evaluation at outcome level, while New Zealand has placed more emphasis on output based contracting and more formal and binding management agreements.

It also seems clear that the reforms implemented to date could not have happened without the pioneering commitment of individual politicians and bureaucrats. As Allen Schick says<sup>14</sup>:-

*"Transforming public management entails much more than changing organisational forms and appropriation formats. It takes more to hold managers accountable than to negotiate contracts and report on performance. The all important factor in public sector reform is the behaviour of those in charge of government programmes and resources"*.

### Summary of major management innovations

While many of the reforms that have been designed and implemented in NZ are similar to those found in other OECD countries, NZ has gone significantly further in some areas.

Some of the key innovations specifically relevant to performance management and measurement are briefly summarised below:-<sup>15</sup>

- **Managerial discretion.** This appears to have been taken further in NZ than in any other country undertaking similar state sector reforms. Within overall budget limitations and the requirements of the law, managers are free to select the quantity and mix of inputs they believe are needed to produce the required outputs. With this high level of managerial control and discretion, Managers can be held accountable for producing outputs and their performance measured (at least in part) by comparing planned with actual product. Departments also maintain their own bank accounts and are responsible for managing cash balances.
- **Employment contracts/conditions of service.** Departmental heads (now referred to as Chief Executive Officers) are no longer appointed to permanent positions, but are rather on fixed term (renewable) contracts which clearly specify their terms of employment. Conditions of service and pay structures within Departments are now largely controlled by CEOs rather than the State Services Commission and are consequently now more like large private sector agencies in terms of personnel management systems..

<sup>13</sup> The italics are taken directly from 'Budgetary Institutions and Expenditure Outcomes' by Ed Campos and Sanjay Pradhan, World Bank, 1996. The authors categorise three basic objectives that any public sector resource management system needs to achieve, the third being *to instil aggregate fiscal discipline*. Both Australia and New Zealand have pursued this objective equally, though through using different approaches

<sup>14</sup> The Spirit of Reform, Allen Schick, August 1996.

<sup>15</sup> Adapted from Schick, 96.

- **Output budgeting.** Appropriations are made through the budget on the basis of output classes rather than inputs. Outputs are thus the basis on which operating expenditure is managed and accountability maintained.

Outputs and output classes are defined in the Treasury document 'Putting it Together' as follows:-

*"Outputs are the goods and services purchased by Ministers from public and private sector producers. Outputs may include the supply of policy advice, the enforcement of regulations such as speed limits, provision of a range of other services, negotiation and management of contracts, and administration of benefits. ....providers must be able to define their outputs in terms of quantity, quality and cost.*

*Individual outputs are combined into groups or classes of outputs that form a common set of goods or services. Output classes are the level at which*

*Parliament authorises output purchase through the appropriation process."*

One of the distinguishing features of the NZ reforms has been its focus on output specification and the use of management contracts to define and formalise management responsibilities and accountabilities. The focus on *outputs* rather than *outcomes* has been justified on the basis that Departments cannot be held directly accountable for most long-term development outcomes, and that they can therefore only be *contracted* to deliver the more tangible outputs (which it is expected will provide the means by which outcomes will be achieved).

Nevertheless, since the early 90s, an ongoing effort has been made to incorporate a more strategic focus into the resource management system, so that outputs can be more clearly placed in the context of government's strategic policy priorities. (See section on SRAs/KRAs below).

- **Purchase Agreements.** Purchase agreements are prepared and signed each financial year between the Minister responsible for an agency and the agency's CEO<sup>16</sup>. The document describes the services to be supplied to the Minister during the forthcoming year<sup>17</sup>, namely in the form of specified outputs (including a narrative description, the quantity, quality and cost). These outputs are also specified in the Budget Estimates and other key documents. Purchase agreements assist Ministers to (i) decide what outputs to purchase, (ii) negotiate agreed cost, quality, quantity and delivery time, (iii) record and change decisions, (iv) verify subsequent output delivery, and (v) hold the supplier accountable for delivery of the specified outputs.
- **Performance agreements.** Performance agreements are also entered into each year between the Minister Responsible and the CEO. These complement the purchase agreement by providing more detail of the expectations that the Minister has of the CEO in terms of reporting and personal accountability for delivering the outputs specified.<sup>18</sup> The content of the performance agreement between the Minister and the CEO then cascades down through the Department in terms of the CEO's (documented) expectations of his/her senior managers. Regular personnel performance evaluations are then carried out within the Department.
- **Reporting requirements.** New reporting requirements have been designed and implemented to meet the needs of new management arrangements. Departments prepare monthly financial reports, quarterly performance reports on their purchase agreements, half yearly reports on their CEO's performance agreement and an annual report on financial results and outputs. Government Departments are required to include audited statements of objectives and statements of service performance together with their financial statements. Audits are carried out by the Controller and Auditor General on the annual reports (within four months from the end of the financial year) and few of these have been 'qualified' over recent years. Most importantly of all, reports have generally been seen to be relevant and timely.
- **Accrual accounting and the capital charge.** All government Departments have account structures that now more closely reflect those used in the private sector. Commercial accounting standards are applied and therefore incorporate profit and loss statements and agency balance sheets. Financial statements, the budget and appropriations are made on an accrual basis and the use of a capital charge incorporates the value of assets (net of liabilities) into the agencies accounts and allows calculation of, and allowance for, depreciation. Measuring agency performance in terms of asset management has therefore also been introduced into the system.

#### Other performance management tools

<sup>16</sup> An important distinction is drawn in the New Zealand context between the ownership and purchase interests of Ministers. This is elaborated on extensively in the literature and dealt with explicitly by Schick.

<sup>17</sup> These services are *bought* by the Minister and *sold* by the agency.

<sup>18</sup> The one performance agreement that I reviewed also included specification of the Government's Strategic Result Areas (SRAs) and the agency's Key Result Areas (KRAs), thus endeavouring to explicitly link outputs to more strategic aims and outcomes.

- **Strategic Result Areas (SRAs) and Key Result Areas (KRAs).** SRAs/KRAs have been introduced into the system in the past few years in response to concerns that the focus on individual agencies and their outputs was damaging the collective interest and that longer term outcomes (strategic policy objectives) were not being adequately specified or assessed. SRAs are described in 'Putting it Together' as "*critical medium term objectives for the public sector that contribute significantly to the Government's longer term policy goals and objectives*". While the SRAs aim to define outcomes, the KRAs that serve them generally resemble output measures.

KRAs are described as "*selected issues on which a department is expected to focus over the coming year, and are incorporated into the performance agreements between CEOs and Responsible Ministers. These include annual milestones to demonstrate the specific results required to achieve each KRA. Progress towards these milestones is then assessed as part of each CEOs periodic performance reporting*".

Schick states in his 1996 report that "*The SRAs and KRAs have had a marked, and generally favourable, influence on budget decision making and managerial accountability*". My interviews also suggested a clear commitment to their use as planning and management tools.

- **Strategic Business Plans.** Strategic business plans are required from Departments and their Responsible Ministers only when a request is being made for the Crown to provide additional capital funding. The plan should then help the Government to determine the justification for that request, and the appropriate level of capital investment that might need to be made.
- **Departmental Forecast Reports & Annual Reports.** Departmental Forecast Reports (DFRs) are prepared by CEOs and their staff and presented to Parliament at the same time as the budget. They describe what the departments intend to achieve during the year based on objective statements, output classes, quality and cost. They therefore establish what performance is to be expected during the year and provide the basis for assessing actual performance. While there appears to be some overlap/duplication of the information provided in DFRs and in other documents such as Purchase Agreements and the Budget Estimates themselves, DFRs provide a useful opportunity for the Department to describe the outputs from their own perspective, and are a more accessible and public document than some of the others. DFRs for all Departments are presented by the Minister of Finance on behalf of other responsible Ministers to the House of Representatives at the same time as the Budget. Each Department is also required to prepare an Annual Report containing audited financial statements and specific reference to the DFRs statements of objectives. These reports are the Department's main accountability document and are made available to, *inter alia*, select committees (which scrutinise performance), the media, academics and agency staff.

An integrated set of planning, reporting and accountability tools have therefore been developed in New Zealand that facilitate the more efficient and effective management of resources and the measurement of agency and individual performance.

### The results of reform

There is considerable difficulty in making comparisons over time given that the management, accounting and reporting systems used by government have been in a state of fairly rapid change. There is also the perennial problem of attributing causality for specific results. Nevertheless, a review of the available literature points to a number of positive results of the reforms, at least from a public sector management perspective<sup>19</sup>. These include:-

- **Expenditure control.** Central government expenditure records show that the historical trend of increasing expenditure as a share of GDP was sharply reversed in the early 1990s. The Government's 1991 targets for reducing public expenditure by 1993/94 were also fully achieved. Further, in a recent survey of OECD countries it was found that New Zealand's relative growth in total government outlays to GDP through the period 1989-1993 was the equal lowest (with Denmark) of all countries.
- **Inflation.** Inflation has been kept well under control, with the contract of the head of the central bank now being tied to maintaining the rate at below 2%.

<sup>19</sup> The main points here have been sourced from a Treasury paper presented to the Australasian Evaluation Society Conference in August 1996, entitled "Effects of Public Sector Financial Management Reforms in New Zealand"

- **Unit Costs/Productivity.** There is some evidence from a Treasury study of four Departments that unit costs for producing process-type outputs have fallen and that productivity has consequently increased. How generally this may be true across a wider range of government departments is currently unknown and is the subject of further study. With cuts in staff numbers, more clearly defined outputs, clear reporting and accountability mechanisms and the increased use of Information Technology, it might nevertheless be expected that productivity has increased within a broad range of agencies.
- **Prioritisation and resource allocation.** The composition of expenditure has changed dramatically, with the share (as a percentage of GDP) going to the development of industry falling from around 13% in 1983 to approximately 3% in 1994, while the share going to social services rose from 30% to 37% over the same period.
- **Transparency.** Prior to the reforms, most public financial statements were not available to the general public for scrutiny and, even if they were made available, could not be easily read or interpreted. Consequently Government performance was not transparent. The Public Finance Act has changed this situation dramatically.
- **Accountability.** Accountability of line ministries and departments was very weak in the early 1980s. The State Sector Act granted considerable autonomy to line ministries but made them directly accountable for producing specified outputs, and introduced sanctions for non-performance. Accountability systems now appear very strong.

While there would appear to be a general consensus among public sector managers that the reforms have brought about positive results, there have of course been some problems and some outstanding complaints. The most widely mentioned complaints from within the public service according to Schick, and as raised in my interviews, are that:-

- budget appropriations are still arbitrarily set
- burgeoning reporting requirements
- central agencies have not completely given up their bad 'control' habits
- loss of unified public service and reduced security of employment

This paper provides no comment on the general public's perception of the results of change.

### Key issues and lessons learned

Key issues and lessons learned are summarised below in point form:-

- The **legislation** that has underpinned the reforms has provided a solid foundation and clear framework for developing the required institutional, management and administrative systems. It has also explicitly demonstrated the political commitment to the reforms and left no-one in any doubt as to the Government's intentions.
- While new **formal management arrangements** and systems have been vital, the positive changes that have been brought about could not have occurred without the **informal systems** of peer-group pressure, a commitment to public service ethics and individual professionalism among key staff.
- **Letting the managers manage** has been balanced with systems of accountability that have also **made** the managers manage. Increased managerial discretion has been balanced with a system of incentives and sanctions that help ensure accountability.
- New Zealand has been fortunate to have a pool of skilled and experienced managers and technical experts to help design and implement the reforms. The Treasury in particular is reported to have invested significant time and effort in **staff skills development**, particularly during the late 80s and early 90s. They have, in many respects, provided the intellectual powerhouse behind the reforms. Schick also highlights the fact that service improvements cost money and that, for example, "...substantial sums have been spent by the Department of Social Welfare on training workers, developing and installing performance monitoring systems, refurbishing offices and recruiting skilled managers.
- **Output specification** has been at the core of the new financial management, contracting and accountability arrangements. Explicitly stating what goods and services are to be provided has helped managers know what is expected of them and how well they are doing. The focus on outputs has been deliberate and has been for good reasons. There has been recognition, however, particularly over the past 6 years, that attention to longer term outcomes must also be better integrated into the resource management system. There is extensive discussion of the output/outcome continuum and the implications for contracting arrangements in both Schick and the OECD Public Management Occasional Paper No. 6 on 'Performance Measurement in Government (1996). Key issues raised are that:-

- ⇒ there should not be seen to be a dichotomy between outputs and outcomes. They cannot be neatly separated and there is a range of possible arrangements lying between the extremes;
  - ⇒ there are advantages and disadvantages of focusing on either end of the spectrum;
  - ⇒ *outcome* contracts are more likely to be chosen when the desired outcome can be clearly specified and its attainment easily measured, when the seller has a high degree of control over the outcome, and when a seller provides a large number of services each of relatively low value (thus reducing risk);
  - ⇒ outcomes should not be seen as a measure of impact (or necessarily directly related to outputs through the cause-effect relationship), but rather regarded as indicators of direction;
  - ⇒ the government faces a dilemma: *output* contracts may fail to get agencies to do what government really wants it to do; and *outcome* contracts may fail to make agencies truly accountable for anything
- **Pricing** for outputs and outcomes can be extremely difficult to get right in government because of fixed price budgeting in the absence of a market. Most of the outputs currently purchased by government are not contested. In these circumstances there is a need to know something about inputs to help ensure that the purchaser is getting value for money. As Schick says, *“There is nothing wrong in these circumstances with Treasury examining the amounts estimated to be spent on key inputs such as personnel, training, equipment etc. Only in this way can government satisfy itself that the amounts to be spent are approximately right”*. There must therefore be a practical balance between input cost and output price budgeting, depending on the nature of the good or service and whether or not there is a market providing reliable price signals based on competitive forces.
  - **Transaction costs.** There can be a significant cost incurred in developing and maintaining the planning, contracting and accountability systems - mostly in terms of the administration, documentation and reporting requirements. There are trade offs to be considered at the margin between more precise contracting and accountability systems, increased costs and decreasing marginal utility of the information generated. Larger agencies are much better positioned to absorb and manage these costs, while the smaller agencies have found them much more difficult to accommodate. This has led, in both NZ and Australia, to moves to establish larger agencies (or portfolios of agencies) for the purpose of more streamlined and cost effective performance management and measurement.
  - **Information presentation and dissemination.** The usual problems have been faced in trying to make the large amounts of information generated useful and accessible, although much progress has been made (e.g. in modifying the content and layout of DFRs and Annual Reports). The amount of detail has been reduced to better meet the needs of busy managers with specific decision making responsibilities and a significant amount of relevant, well presented and timely information appears to be produced. Improvements are ongoing. Legislation requires that specific planning, budgetary and expenditure information is made publicly available, and this helps to underpin the principles of transparency and accountability. I was certainly most impressed by the type of information provided to me (at short notice) which in other countries and cultures would be treated more like closely guarded secrets.
  - **Evaluation.** Evaluation systems and procedures (for measuring outcomes) have been relatively weak in the NZ system, as compared to Australia where they have been emphasised and systematised through administrative requirements (e.g. the Portfolio Evaluation Plans).
  - **Getting the incentives right.** Effective performance measurement systems depend on getting the incentives right, both for agencies and individual personnel. The wrong incentives can easily lead to the wrong results.

### Implications for UNDP and its clients

This final section provides a few ideas on what this may mean for UNDP and its clients.

- Performance management and measurement systems can be supported either at the policy, programme, or project level. However for the system to be strong and sustainable, it must permeate all levels and be created as an integrated whole.
- Systems must be built from within - local political and bureaucratic understanding and commitment is required if there is to be any hope of making significant and sustainable progress.
- Legislation provides a useful framework to guide and enforce compliance by government agencies and individuals.

- Projects and programs must be designed with management systems which provide for appropriate levels of managerial discretion and which include appropriately specified outputs and outcomes to help make accountability systems work.
- Despite there being no dichotomy between outputs and outcomes, different approaches need to be used to effectively measure the results at different ends of the spectrum. Selecting the right type and level of indicators must be based on experience, and careful consideration of whether or not accountability for results (either outputs or outcomes) can be reasonably expected and enforced.
- If output contracting is favoured, circumstances may still require that costing and appropriation decisions be based at least partly on input specification and analysis
- Performance measurement systems require an adequate mass of skilled, committed and professional managers who are provided with appropriate incentives.
- Project and programme designs which have been developed using the Logical Framework Approach and which have a well constructed Matrix are likely to significantly assist in the specification (and subsequent implementation) of performance measurement systems.
- Democratic and open forms of government (and society) which support principles of freedom of information are much more likely to be successful breeding grounds for the development of *effective* and *transparent* performance measurement systems which are responsive to client needs.
- Information Technology provides an essential tool to help generate, record, document, report and manage the information that is generated.

The New Zealand reforms provide some important lessons to all those concerned with improving the efficiency and effectiveness of public sector management and performance measurement. The design of appropriate interventions for different countries will nevertheless need to be assessed on a case by case basis depending on the social, economic and political systems in place, political and community aspirations and the resource base on which to build.

## UNITED KINGDOM

The UK government has been a leading proponent of reform in public sector management. A desire to see improvements in the efficiency of public services as well as better performance for the public has led to two related initiatives: the creation of executive agencies and the Citizen's Charter. In this section, both are described briefly together with short examples of performance measurement.

### Executive Agencies

A policy decision was taken in 1988 to separate the executive functions of government from policy advice, by the creation of units clearly designated within departments, referred to as agencies. Each agency has defined responsibilities, and clear aims and objectives, set out in its published framework document. Key performance targets covering financial performance, efficiency and quality of service are set by Ministers annually and announced to Parliament. Performance against these targets is reported each year in each agency's published annual report and account. This has significantly increased the amount of information available to Parliament and the public. Each year, a Review is published in which material is brought together from all agencies for comparison and comment.

Each agency has a chief executive, who is personally responsible to the relevant Minister for the agency's performance in relation to its objectives and targets. An element of their remuneration is normally linked to the achievement of annual performance targets. By October 1996 there were 125 designated agencies. To ensure the appointment of the best qualified person, whether from inside or outside the Civil service, the chief executives are appointed through open competition. Of the 131 chief executives and chief executives designate appointed so far, 69 percent have been recruited through open competition. Of those, 37 percent have come from outside the Civil service. Six women have been appointed as chief executives.

Each agency's performance targets will normally cover output/throughput, quality of service (often linked to the Citizen's Charter, described below), financial performance and efficiency. The British Quality Foundation has been contracted to work with 30 agencies in a pilot exercise, to assess the value of benchmarking as a tool to improve efficiency and effectiveness.

Most agencies have unit cost measures. Many agencies have more than one, reflecting the diversity of activities. Unit costs make a link between resource usage and output that is found to be relevant at all volumes of activity, and can provide a valuable commentary on performance as a time series is established.

The review report summarises overall performance by looking at the aggregate achievement of agency performance indicators grouped into four categories: quality; finance; efficiency; and throughput. Box 3 contains examples of indicators for the Central Statistical Office.

### Box 3: Indicators for the Central Statistical Office

#### Core indicators

*Baseline indicators:* gross running costs; capital outturn; total assets; staff in post

*Running cost savings:* as % gross running costs

*Change in unit cost of output:* unit cost in absolute cash terms, as % change year on year; proportion of operating cost covered by unit costs of output

*Competing for Quality Programme:* total reviewed; savings achieved; % saving

#### Specific performance indicators

- Meet new timetables for monthly and quarterly first releases
- Meet pre-announced publication dates for other publications
- Speed up preparation of input-output analysis
- Release the family expenditure survey database to timetable
- A set of twenty three technical indicators dealing with magnitudes of revisions made to published estimates
- Retail prices index to ensure an average of 150,00 prices are taken
- Family expenditure survey to achieve a response rate of at least 70%
- Time taken to reply to correspondence from the public
- Burden of form filling
- Finance - to operate within running cost limits
- Efficiency - to find target value for money and efficiency savings
- Receipts - target for receipts in real terms

Source: HMSO (1996a)

#### Citizen's Charter

The Citizen's Charter, launched in July 1991, aims to improve public services in order to respond better to the needs and wishes of customers and users; and to find more effective and efficient ways of organising and delivering public services. The six principles of public service are:

- **Standards** - setting, monitoring and publication of explicit standards for the services that individual users can reasonably expect. Publication of actual performance against those standards.
- **Information and openness** - full, accurate information readily available in plain language about how public services are run, what they cost, how well they perform and who is in charge.
- **Choice and consultation** - the public service should provide choice wherever practicable. There should be regular and systematic consultation with those who use services. User's views about services, and their priorities for improving them, should be taken into account in final decisions on standards.
- **Courtesy and helpfulness** - courteous and helpful service from public servants who will normally wear name badges. Services available equally to all who are entitled to them and run to suit their convenience.
- **Putting things right** - if things go wrong, an apology, a full explanation and a swift and effective remedy. Well publicised and easy to use complaints procedures with independent review wherever possible; and
- **Value for money** - efficient and economical delivery of public services within the resources the nation can afford. And independent validation of performance against standards.

The Charter principles have led to a changed relationship between government agencies and their customers. Most significant is the re-orientation towards informing the public and achieving standards of service. For example, the central government requires all local authorities to publish indicators of performance in a range of areas determined by the Audit Commission. A typical county council publishes indicators in the local press, covering:

- dealing with the public
- waste disposal
- leisure and recreation
- looking after the local environment
- education
- social services

- public libraries
- fire services
- roads and streetlights
- spending and income.

Specific advice is available to improve methods of consulting with users of services. Publications introduce a wide range of techniques such as complaints monitoring, focus groups, suggestion schemes, consulting representative organisations, user panels, opinion surveys, open days and roadshows, with advice of pros and cons, and the relative costs.

An example of a charter and target performance measures is given in Box 4.

#### **Box 4: The London Bus Passenger's Charter**

The charter sets out priorities derived from passenger surveys, explains what London transport is doing about those service priorities, and the division of responsibility between the transport authority and bus operating companies, and sets out targets, recent performance and how passengers can comment or complain.

##### **Customer priorities:**

- Safety
- Better quality bus services
- Reliable bus services
- Improved bus stops, shelters and bus stations
- Accurate information on our services
- Measures which allow buses to move more easily through traffic, for example more bus lanes

##### **Targets:**

- Reliability    Extra waiting time (1min 30 secs)
- Buses running on time (at least 70%)
- Buses running early (no more than 4%)
- Night buses running on time (65%)
- Cancellations            Miles covered (99%)
- Passenger satisfaction from quarterly customer surveys
- Condition of bus stops and shelters (54%)
- Helpful staff (66%)
- Clean buses - inside (63%)
- Clean buses - outside (54%)
- Bus stations clean and buildings in good condition (71%)
- Bus station information - helpful staff, information available (67%)

Source London Bus Passenger's Charter, December 1995

The Charter Mark Award Scheme recognises excellence and rewards organisations that demonstrate they are providing an excellent service. Charter Quality Networks are small groups of managers from public services and privatised regulated utilities who meet locally to exchange ideas on customer service and quality issues.

Future themes for the programme have been identified as more localisation, greater consultation with users, greater involvement, participation by users, better information and higher standards.

#### **Conclusions**

The UK experience is interesting for two reasons. Firstly, the strong financial orientation of the underlying reforms, based around value for money and efficiency savings. Secondly, by adopting a service orientation, the focus of performance is directed towards user satisfaction. This tackles the outputs/outcomes dilemma directly, by means of an intermediate step, based on the users of services. The UK system lacks the evaluation element which is so important in Australia, although the Audit Commission has an evaluative function. But clearly, there is a danger that users might be satisfied with services which do not meet with policy objectives and there could be an imbalance in performance measurement unless outcomes are evaluated.

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## Measuring and Managing Results: Lessons for Development Cooperation

The concern behind the study is to examine the relationship between performance measurement and performance management. For many years, aid agencies have promoted monitoring, reporting and evaluation systems; attempts to measure the performance of aid programmes. But these systems appear to have rarely achieved their aim of improving the management of aid activities (Coleman 1992). New procedures among agencies may have started to reverse this trend. This study examines interesting recent initiatives. Performance monitoring has long been a concern of development agencies, as part of the project cycle of investment projects. The main thrust of attention has been through arrangements for monitoring and evaluation, described in more detail below. But since the mid-1980s, member states of the OECD have taken the lead and provided the main stimulus and innovation to the search for improved methods for their own public sector activities.

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