

## MONITORING THE IMPLEMENTATION OF STRUCTURAL REFORMS - THEORY AND PRACTICE -

**This policy document focuses on the process of monitoring the implementation of SRs, and aims to help further improve the capacities and capabilities of line ministries (LM) and Ministries of Finance (MoF) in monitoring progress with the implementation of SRs.**

The specific objectives of this policy document are to:

- Give an overview of existing theoretical frameworks.
- Identify and capture some of the countries' challenges in identifying performance indicators.
- Provide a basis for understanding the learning needs of public officials in the region.

**Monitoring the implementation of SRs includes two aspects:** identification and realization of the **key performance indicators (KPIs)** set for a measure and **financing issues**. **The focus of this document is KPIs, including their development and design, types and interpretation.** Proper and adequate definition of KPIs for each SR as well as their optimal number are important for the future work on monitoring the implementation and results of all relevant SR activities.

This policy document consists of three main parts:

1. **Existing theoretical framework** of KPIs.
2. **Practical experience** of public servants and examples of KPIs in the ERPs.
3. **Identification of the learning needs** of public officials.

### 1. Theoretical Framework

Theoretical part is based on one of the OECD tools for SRs related to the ERP process - the ERP Monitoring Tool<sup>1</sup> that provides guidelines and examples on how to track progress with the implementation of SRs over time, as well as how to measure the immediate outputs and outcomes of realized reforms. Implementation of an individual structural reform can be measured through key performance indicators (KPIs). There are two types of KPIs:

- **Quantitative indicators** show the direct outputs in numbers or illustrate the change (outcome) related directly to the undertaken activities.
- **Qualitative indicators** provide information on the perception or experience related to the reform.

The KPIs can be used for:

- Monitoring the process of implementation of a measure, i.e. the status of the reform each year – **process indicators**.
- Monitoring the immediate outputs and outcomes of a measure – **result indicators**.
- Evaluating the economic impact of the reform on macroeconomic indicators – **impact indicators**.

The first two groups of indicators serve for the process-based and result-based tracking of structural reforms during the monitoring phase, while the third group, assessing the overall impact, can be

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<sup>1</sup> [https://www.oecd.org/south-east-europe/programme/ERP\\_Monitoring\\_Tool.pdf](https://www.oecd.org/south-east-europe/programme/ERP_Monitoring_Tool.pdf)

used in later stages. **The focus of this document is on the result-based indicators: a) Output indicators** (measure the direct effects of the reform in the short run) and **b) Outcome indicators** (measure indirect results in the medium term).

**In developing the KPIs**, it is important to emphasize that **there is no unique recipe or list to choose from**. The **result indicators should be defined for each measure**, not for the planned activities. The **optimal number of indicators should be 2-3 per reform measure**. The **selection of the result indicators should rely on meaningful reasoning** to make sure that all important information is included, and all relevant stakeholders are involved, while avoiding repetitions and weak indicators.

## **2. Practical Experience<sup>2</sup>**

Practical experience of countries has been captured through two sources, both obtained from the hybrid workshop, held in Ljubljana on 26-28 October 2021:

- Interviews with participants – 7 participants from three countries, two directly involved in the ERP preparation process.
- Exercises, discussions, peer review and sharing practical know-how by experts.

### **Importance and relevance of KPIs for structural reforms**

- KPIs are significant, important and relevant.
- KPIs allow stakeholders to monitor implementation over time, identify the progress made, if any, and assess whether the reform was successful.
- KPIs have become even more significant and relevant over the past few years, being used systematically by the private sector and international organizations.

### **Process of defining KPIs**

- The process of defining KPIs is complex, responsible institutions lack knowledge of their proper design.
- Comparison of KPIs with similar measures in other countries is occasionally happening, but countries do not use other countries' models or indicators for monitoring process.
- For the majority of the measures KPIs are quantitative.
- The involvement of experts from the National Statistics Office can be very useful.
- Sometimes, an indicator is defined as increased spending (in % of GDP) of some government function, but without explaining the purpose.
- It is difficult to quantify the targets (settle baseline and target values).

### **Using KPIs for monitoring and evaluating structural reforms**

- In some cases, there is an ongoing process of monitoring SRs over the medium term, but it is still limited due to insufficient data availability.
- The intention is to shorten the monitoring period to one year or a quarter and to link monitoring reports with the MTBF.
- The adjustments, if any, in the KPIs are usually introduced when new activities are proposed, not because of the results / progress of monitoring the implementation.
- Abandoning or postponing a measure is due to the timeline of the proposed activities, not because of delays or non-fulfillment in defining KPIs.

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<sup>2</sup> This part of document contains also examples of clearly and not so clearly identified KPIs from the countries' ERPs for 2021-2023.

- Monitoring and evaluation of KPIs takes place only occasionally, whereas it should be made a regular practice.

### **Coordination process**

- The role of ERP coordinators is rather advisory.
- The issue of KPIs is tightly linked to the process of coordination between the ERP coordinators and line ministries, among line ministries and between different departments in the same line ministry.
- Important organizational issues - who should define, monitor and bear responsibility for KPIs.

### **Challenges and problems related to KPIs**

- Insufficient knowledge of how to define the proper KPIs and the scarce availability of the relevant data.
- Lack of knowledge of the overall process of preparing, implementing and defining adequate means for monitoring.
- No clear understanding that one measure affects more than one indicator.
- Not enough knowledge of the links and relationships between economic and fiscal policies.
- Reporting and cases when line ministries do not even include KPIs in their SR.
- The ERP is seen as a document prepared for EC, not for the own country.

### **3. Learning needs of public servants**

- Defining structural measures (main objective, expected outcomes and impact, key obstacles, clear description of activities and the adequate timeline).
- Developing KPIs (the OECD Monitoring Tool, many practical examples, KPIs designing, baseline and target years and values).
- The differences between process, result (outcomes) and impact indicators, including examples.
- Ensuring relevant and available official statistics (national and European) and developing internal databases.
- Reporting on the realization of KPIs for each year or even a shorter period.
- Costing the proposed activities and the whole measure and linking them with the budget/fiscal framework – ex-ante before the implementation.
- Monitoring and reporting the realized costs during the implementation (ex-post) and comparing them to the initially estimated costs (ex-ante). Linking the KPIs with the policy objectives and targets in the medium-term budget framework.
- Monitoring and reporting on the availability of financing for the SR compared to the initially planned and estimated financial resources.
- Enhancing coordination between LMs and the MoF, among the institutions, and between civil servants responsible within the same institution. Involving officials from the national statistics authority in defining the KPIs.
- Organizational issues regarding the preparation and monitoring of KPIs and taking responsibility if the targets have not been met.