



Measuring and managing performance in decentralised context:

The use of indicator systems

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Outline

This presentation addresses six questions:

- 1. Which indicator systems are of interest?**
- 2. Why indicator systems for multi-level governance?**
- 3. What objectives do they serve?**
- 4. What is the role of incentives?**
- 5. What are the “costs” of using indicators?**
- 6. What practices can reduce costs/maximize benefits?**

Which indicator systems?

- **There are different models of indicator systems:**
 - **Central government systems for monitoring the activities of the national government**
 - **Sub central government systems to monitor their own performance**
 - **Central government systems to measure and monitor sub central spending and service delivery**
 - **This last approach is interesting in a multi-level governance context**

Why indicator systems for multi-level governance?

- Central and sub-central actors have different levels of knowledge for planning and implementing policies
- In this context, indicator systems can be used to:
 - reduce information asymmetries between levels of gov`t
 - help the central government transfer knowledge across sub central authorities
 - encourage performance improvements at a sub central level
- Some information asymmetry is inevitable
 - Types of information collected will depend on the objectives to be achieved (no “optimal” design)

What objectives do indicator systems serve?

- **Indicator systems can serve a variety of objectives, including (but not limited to):**
 - **Enhancing transparency and promoting accountability**
 - **Increasing efficiency by promoting competition through sub central comparison**
 - **Strengthening sub central capacity to achieve policy goals**
 - **Transforming the quality of public services**
 - **Disseminating information and sharing good practice**
 - **Assessing the progress and impact of decentralisation (or other reforms)**

Using indicators to promote learning

Example: Norway/KOSTRA

- An electronic system for conveying data from municipalities to the central gov't, between municipalities, and to the public
- Helps the central gov't track municipal resource use and aids local governments with planning and budgeting
- Municipalities report data; central gov't adds value by combining it with other data and producing timely indicators
 - ~ 40 key indicators plus 1 000 indicators in 16 service areas at the municipal level
- Accessible via internet
 - Allows sub central governments to compare themselves to similar authorities
 - Facilitates learning from good practice

What is the role of incentives?

- Incentives are inevitable
- Choice is between (mix of) two types:
 1. Implicit → arise because indicators are not neutral
 - Strength depends on how information is used and by whom
 2. Explicit → manipulated by the central gov't
 - Two major categories: financial and administrative
 - To be effective, challenging conditions must be met
- Incentives affect what information is revealed and the behavior of actors (both in positive and negative ways)

Using explicit incentives

Example: Local Public Service Agreements (UK)

LPSAs

- Voluntary 3-year performance agreements with local authorities
- 12 outcome-based “stretch targets” in multiple service areas
- Incentives:
 - Pump-priming grant
 - Performance grant
 - Scope for additional borrowing
 - Administrative flexibility

Some lessons from 1st generation

- LPSAs contributed to:
 - Improved service delivery
 - Local capacity development
 - Local partnerships
- But:
 - Negotiating targets is time-consuming
 - Incentives can encourage some gaming
 - Central-local dialogue key for setting relevant targets that reflect local priorities

2nd generation LPSAs launched in 2003, later merged as “reward element” of Local Area Agreements

What costs/risks are associated with indicator systems?

- **Indicator systems can be tools for change but they are not “costless”. Cost and risks include (but are not limited to):**
 - **Financial costs**
 - **Opportunity costs**
 - **Formalistic compliance**
 - **Negative shifts in program orientation, work organisation**
- **In a decentralised context, there is a specific risk:**
 - **Ex-post performance management by the central government as a substitute for ex-ante control**
 - **A heavily top-down approach can limit the benefits of decentralisation, for example:**
 - **Less scope for contribution of local knowledge**
 - **Indicators & targets divorced from local needs/context**
 - **Less ownership**

What practices can reduce costs and maximize benefits?

1. Set clear objectives. Know how indicators will contribute to multi-level governance arrangements; plan for use
2. Collaborate (central/sub-central) in design and implementation
3. Minimize complexity. Maximize use of existing data, but do not try to capture every possible output or outcome
4. Consider pilot initiatives before full-scale launch
5. Integrate lessons learned. Indicator systems are dynamic and need to evolve
6. Introduce incentives carefully. Monitor implementation to detect perverse effects.
7. Recognize context matters. The same approach is unlikely to work equally well everywhere