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The Japanese Attempt at Reinforcing the Policy Management Cycle through Policy Evaluation

by

Hironobu Yamanaka*

1. Introduction

This article describes the introduction of a government-wide policy evaluation system that is underway in Japan, exemplified by the policy appraisal-evaluation system of the Ministry of Economy, Trade and Industry (METI, the former Ministry of International Trade and Industry). The initiative in METI was started in December 1999, preceding the implementation of a government-wide system. "Policy evaluation" as a term is not limited, in this context, to *ex post* evaluation but includes *ex ante* assessment and performance measurement as well. Information as to what extent and how outcome measures are used under the systems is also provided.

2. Government-wide policy evaluation system

A government-wide policy evaluation system was introduced as part of the Central Government Reform in January 2001. The final report on that reform by the Administrative Reform Council headed by the Prime Minister pointed out that the administration in Japan had been putting too much priority on planning legislation and increasing budgets, whereas it had tended to regard evaluation of the socio-economic effects of policies as less significant.

The understanding of policy evaluation in the final report is close to that of so-called (*ex post*) programme evaluation. However, as the discussion within the government has deepened, the concept of evaluation has become broader including not only *ex post* evaluation but also *ex ante* policy assessment and performance measurement. Policy evaluation, in this broader sense, is to be integrated into the policy management cycle as a system, mainly through the planning functions of ministries.

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Evaluation of executive activities is conceptually not included in the reform. For example, the Performance Evaluation of Independent Administrative Institutions (IAIs),* is not considered to be covered by the initiative though the setting of midterm goals by the minister, which an IAI belongs to can be an object of policy evaluation.

Following the discussions within government, the institutional setting of government-wide policy evaluation was determined to be as follows:

- Two-layered structure: i) Individual ministries are responsible for designing their evaluation systems and for conducting evaluation of policies which they are in charge of; ii) The Ministry of Public Management, Home Affairs, Posts and Telecommunications (MPHPT), which is a new ministry reorganised from the Management and Co-ordination Agency (MCA), is responsible for the overall management of the policy evaluation system. MPHPT also conducts *ad hoc* policy evaluation to cover policies that are difficult for individual ministers to appropriately evaluate (such as inter-ministerial policies).
- Establishment of organisations specialising in policy evaluation: i) Each ministry must set up a division-level unit specialising in policy evaluation; ii) The MPHPT's policy evaluation functions are carried out by the Administrative Evaluation Bureau formed from the former Administrative Inspection Bureau of the MCA.

3. Standard guidelines for policy evaluation

In January 2001, the MCA, in collaboration with all central ministries and agencies, published "Standard Guidelines for Policy Evaluation". The standard guidelines are intended to assist ministries in preparing their own policy evaluation schemes, including how evaluation results are to be used in resource allocation. In order to cope with the diversity of programmes of the ministries and the evolving nature of policy evaluation, the descriptions of the standard guidelines are not very rigid. The guidelines have the following main components:

Objects: Policy evaluation may cover policies, programmes or projects, all of which are the public activities to achieve missions stipulated in the laws providing the legal foundation for each ministry.

Roles: Each ministry conducts self-evaluations of the policies they are in charge of. In addition, the MPHPT conducts evaluations as the main organisation specialising in evaluation functions. An advisory committee on Policy Evaluation and Evaluation of Independent Administrative Institutions, comprised of outside

* The IAI is a new type of government organisation that is introduced as part of the Central Government Reform. IAIs are similar to Executive Agencies in the United Kingdom.

experts, is set up at the MPHPT in order to ensure objectivity and fairness of the MPHPT's policy evaluation.

Criteria: "Necessity", "efficiency", "effectiveness", "fairness" and "priority" are listed as criteria against which policies can be evaluated. "Necessity", "efficiency" and "effectiveness" are considered to be fundamental criteria that are always used while "fairness" and "priority" are used if it is considered to be appropriate. It is up to individual ministries to choose criteria appropriate to their policies.

Methods: Individual ministries select appropriate evaluation methods in accordance with the characteristics of the policy evaluated and the aim of the evaluation. Costs of evaluation work should be taken into account. Development and usage of quantitative methods are recommended.

Evaluation types: The following three types of evaluations are shown in the guidelines to assist individual ministries to establish their own appropriate policy evaluation systems, for example by consistently combining the three types, and carrying out evaluations.

1. "Project Evaluation" is conducted in order to get information for the decision on adoption of a policy. It is accompanied by a check of the progress during implementation, and a follow-up assessment after completion of the project.
2. "Performance Evaluation" is conducted in order to show the levels of achievement of a policy compared with its targets.
3. "Comprehensive Evaluation" is conducted from various angles in order to grasp the effects of the policy and to generate useful information for improvement of the policy or the policy area.

Feeding back evaluation results to policy formulation: Individual ministries are responsible for establishing mechanisms that enable evaluation results to be reflected in their policy planning. In cases where the MPHPT is undertaking an evaluation, the ministries concerned are informed about the evaluation results and, if necessary, MPHPT gives recommendations for change. Subsequently, the MPHPT requests the ministries to report the actions taken regarding the recommendations. If necessary, the MPHPT may send its opinion on recommendations to the Prime Minister. The fiscal authorities have to make efforts to utilise the results of evaluations in the course of the budget plan formulation but the use of the evaluation results in the budget planning is not strictly stipulated.

Publication of evaluation results: Not only evaluation results but also the background information including assumptions, methods, data and processes are to be published as specifically as possible.

Evaluation guide: Individual ministries must prepare their own evaluation guide (procedures, etc.) suitable to their policies.

Outcome measures: The importance of outcome measures is recognised in the guidelines, where a distinction is made between “basic objectives” (or intended effects of the proposed government action), and “achievement objectives” (or specified measurable targets). How outcome measures, including management of outcome risks, are to be dealt with is up to individual ministries. The supplementary explanation for this part is shown Box 1.

Box 1. Supplementary Explanation in the Standard Guidelines on Target Setting

It takes time for implementation of policies to produce results and the time required will vary from one policy to another. It is therefore not possible to set a standard time horizon for measuring actual outcomes covering all policies. As a rule of thumb, however, five years is mentioned as a benchmark in the guidelines. When it is difficult or inappropriate to set up an objective formulated in terms of outcomes, an objective that focuses on the output can be used as a basic objective.

Quantitative indicators should be used to the widest extent possible. It is necessary to use outcome-oriented indices and output-oriented indices properly in accordance with the characteristics of the implementation measures. If it is difficult or inappropriate to use quantifiable indicators due to the characteristics of policies or implementation measures, qualitative indices can be used.

When it is not possible to set targets as described above, performance can be accounted for by stating the activities undertaken by the organisation in order to achieve the objective

In setting up and publishing objectives and indicators, it is necessary to make explicit the approach used in setting up the objectives, the relationship between basic objectives and achievement objectives, the means to achieve the objectives, the cost, and so on.

In achieving results-oriented objectives, it is not possible, in general, to eliminate the influence of external factors that are not controllable by an administrative organisation. Therefore, it is difficult to hold the administrative organisation completely accountable for the level of its achievement. For this reason, it is necessary to clarify beforehand the external factors that are likely to influence the achievement of the objectives.

4. Policy Evaluation Law

There have been political pressures for policy evaluation to be stipulated in law. In June 2001, at last, the Government Policy Evaluations Act (tentative English name), which will come into effect in April 2002, was passed by the Diet. The

framework of the act is essentially the same as that of the standard guidelines described above. However, there are several new points that appeared in the act:

1. The government shall adopt and announce guidelines for policy evaluations in order to promote a planned and steady implementation of evaluations. It is supposed that the guidelines are to be composed of major elements of the existing standard guidelines. The head of each ministry shall adopt and announce a master plan for policy evaluations, which describes the policies to be evaluated every three to five years and an implementation plan for *ex post* evaluation that shall be carried out every fiscal year. *Ex ante* evaluations shall be applied to policies that are expected to substantially affect citizens' lives and socio-economic conditions, need large funds, and for which evaluation methods are developed. Examples include research and development, public works and official development assistance (ODA).
2. The minister of MPHPT can request the head of each ministry for submissions or explanations if necessary.
3. The government shall submit to the Diet a report on the progress in implementation of evaluations carried out by each ministry and the MPHPT. The report is made public.
4. The act is to be reviewed three years after its enforcement.

5. Policy evaluation and government-wide policy formulation

Even before the standard guidelines were prepared, some ministries, including METI and the Ministry of Land, Infrastructure and Transport, started their own attempts to integrate policy evaluation into the policy process systematically. Such spontaneous activities seem to gradually affect the government-wide policy formulation and are in themselves improving government officials' ability to manage performance measures relating to policies or programmes. For example, performance targets were set for the programmes under the policy package known as the "Policy Measures for Economic Rebirth". The majority of the targets were focused on outputs and called for qualitative descriptions of performance but they also included some outcome targets and an amount of quantifiable indicators (see Table 1).

6. METI's policy appraisal evaluation system

Under the current Policy Evaluation framework of the Japanese Government, each ministry, as long as it keeps the principles shown in the standard guidelines, can make trials in establishing the system that best suits the natures of its policies and decision-making mechanisms. The policy appraisal-evaluation system of the Ministry of Economy, Trade and Industry (METI), which is reorganised mainly from the Ministry of International Trade and Industry (MITI), described below is one of such examples.

Table 1. **Example of performance targets and progression in “Policy Measures for Economic Rebirth” Promotion of small and medium enterprises (SMEs) and venture firms**

| Targets | Progress (October 2000) |
|---|--|
| <p>Developing policies for SMEs to create new industries and employment: Basic philosophical aspects of policies for SMEs will be overhauled by identifying SME's as a principal source of dynamism in the Japanese economy and promoting the healthy development of diverse enterprises. An amendment bill for SME basic law and the related bills will be submitted to the current Session of Parliament. With the amendments and introduction or reinforcement of SME promotion programmes, the following changes are expected to be made.</p> <p>a) Number of initial public offerings (IPOs) will increase substantially.</p> <p>b) Annual number of new companies will increase by around 100 000. (Around 140 000 at present.)</p> | <ul style="list-style-type: none"> - The amendment bill for the SME basic law passed Parliament. - Number of IPOs was 65 by the end of September 2000, and it is steadily increasing (62 in 1998, 73 in 1999). - Precise number of new companies will be shown when the result of the 2001 “Establishment and Enterprise Census” is disclosed. According to another census data, the increase in the number between January and May 2000 was 23.2% compared to the previous year. |
| <p>Accumulated number of innovative SMEs that are supported through “Temporary Law concerning Measures for the Promotion of the Creative Business Activities of SMEs” will increase by 10 000 within three to five years from now. (Around 5 000 at present.)</p> | <p>Accumulated number of innovative SMEs supported by the Creative SMEs Law was 5 535 by the end of October and 6 770 by the end of August 2000.</p> |
| <p><i>Note:</i> The numbers shown above are influenced by the business decisions made by the companies or the owners. Therefore, the causal relationship with the policy is weaker than for other policies.</p> | |

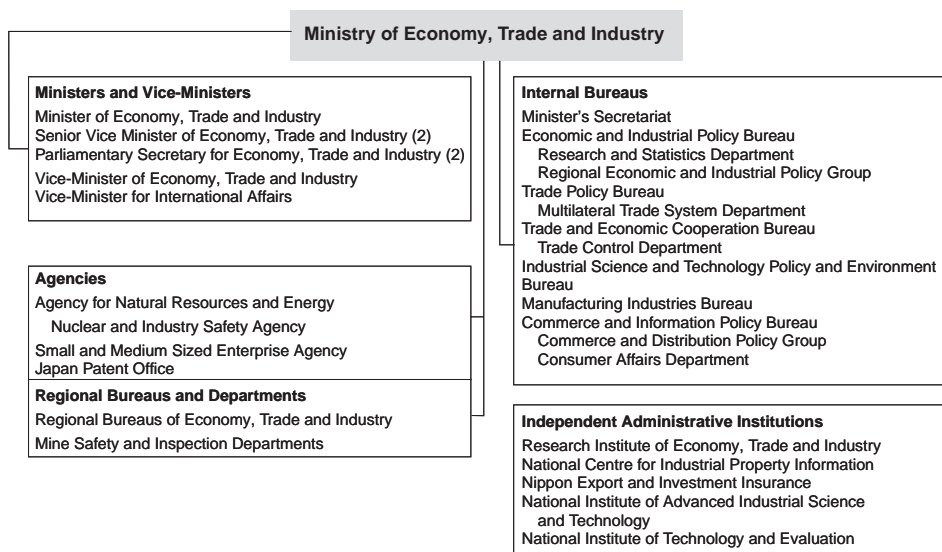
6.1. *Brief history*

In July 1997, the Policy Evaluation and Public Relations Division (Evaluation Division) was set up in the minister's secretariat of MITI. Its mission is to plan and carry out MITI's policy evaluation issues. After the establishment, the Evaluation Division made in-depth case studies of evaluation-related practices in Japan and a number of other countries. Based on the study, MITI made up its own policy appraisal-evaluation system (whose procedures and rules are laid down in the ministry's “Policy Appraisal-Evaluation Guide”) in December 1999. The system aims mainly to improve the ministry's policy management process by establishing clearly defined quality control procedures and enhancing its transparency and openness. In designing the system, cost-effectiveness and flexibility are deemed important, recognising both strengths and weaknesses of appraisal and evaluation.

Box 2. **METI in brief**

The mission of the Ministry of Economy, Trade and Industry (METI, the former Ministry of International Trade and Industry) is “to generate growth in the economy and industry, mainly focusing on increasing the vitality of the private economy and strengthening external economic relations, and to secure the stable and efficient supply of natural resources and energy.” It covers the policy areas of trade policy, trade and economic co-operation, industrial policy, improvement of trading rules, support of small and medium enterprises, energy policy, innovation policy, protection of industrial property and industrial safety. The structure of the ministry is shown below. Its total budget for FY 2001 is around 1.8 trillion yen, equalling approximately 17 billion euro. METI currently employs around 8 000 staff (excluding that of IAI's).

It is the first ever evaluation system in Japan that covers a whole ministry. The experience with running the system has provided practical knowledge to the discussion for the government-wide policy evaluation system. METI will soon revise the system slightly, reflecting knowledge gained during the trial period and some additional procedures coming from the standard guidelines, the ministry will then go ahead with the full-scale system.



6.1.1. *Object of evaluation*

The policy appraisal-evaluation system is applied to budgetary expenditure programmes, fiscal investment and interest-free loan programmes, tax measures and legal measures. In policy areas where more specialised evaluation systems exist (for example technology promotion, Official Development Assistance and Industrial Water Supply Business support), evaluations are undertaken complying with area-specific evaluation guidelines. Results of evaluations within these areas are to be incorporated in evaluations under the new appraisal-evaluation system in order to avoid inefficient additional work.

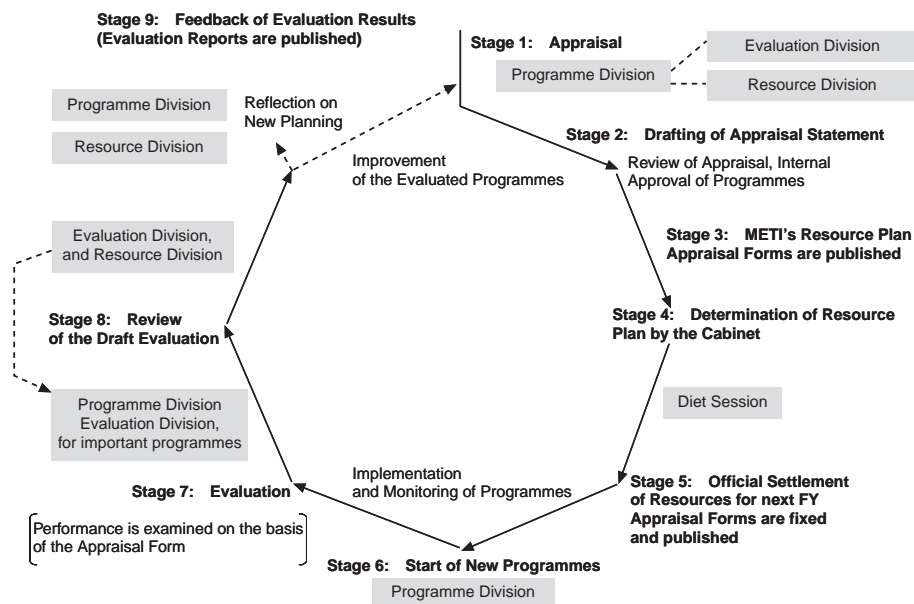
Resource Allocation Divisions in Japanese ministries are not involved in policy formulation in regard to Regulation and Regulatory Policies. These areas are therefore not included in the new evaluation system. Furthermore, it is held that appraisal of regulation, which tends to have significant impacts on socio-economy, needs to be more elaborate than in the cases of other kinds of programmes. Following the “Further Revised Three Year Programme for Promoting Deregulation” (31 March 2000), the planning of new or revised regulation is undertaken with the use of regulatory impact analysis (RIA), which adopts the cost-benefit principle. However, the current RIA regime neither provides satisfactory specific information regarding the analysis methods nor is it effectively integrated into the policy process. METI is considering developing its own RIA guide to cure these insufficiencies.

Evaluation, the policy process stages and the role of divisions in METI. For METI, one of the most important aims of policy evaluation is the enhancement of the quality of policies. Integration of evaluation elements into the policy management cycle is thus essential, as are the roles and responsibilities of divisions within the ministry. METI's system consists of three kinds of evaluations – appraisal, monitoring and evaluation, each of which are aligned to the policy cycle, as shown in the chart below.

Appraisal: Even before the system was introduced, appraisal-like activities have existed within government. The director of the division proposing a new or revised programme (Programme Division) is required to summarise the following elements in the Appraisal Statement.

1. *Rationale:* Existence of a problem that will only be solved effectively by METI's programme needs to be identified. Market failure is a typical example of such a problem.
2. *Objectives:* The objectives section covers what the proposed programme is expected to achieve in addressing the problem. The objectives are aims, or long-term goals, and usually qualitatively defined.

Figure 1. Appraisal – Evaluation Stages



3. *Performance indicators and targets*: Indicators are the measures to gauge performance, reflecting the characteristics of the programme. Targets are the specific levels of indicators to measure the progression. Targets are required to be time specific. Outcome indicators, which are supposed to be closely related to the objectives, as well as output indicators, are required to be explicitly set. In general, outputs are supposed to be measured through ongoing monitoring while outcomes are supposed to be measured through evaluation. It is possible, though, for outcomes or user satisfaction measures to be gauged at monitoring if it is expected that it can be done with insignificant additional burdens.
4. *Comparison of potential alternative measures*: It is required that the proposed programme is the most effective and efficient compared with other potential alternative policy measures. “No additional public action” should be considered as an alternative.
5. *Monitoring and evaluation*: For each indicator listed in the indicators section mentioned above, the source and method of collecting data and the

frequency are to be set. In addition, timing of evaluation is to be established here though it is possible that *ad hoc* evaluation will be conducted in reacting to unexpected social or economic changes.

6. *Consultation*: External ideas or opinions taken into consideration during the development of the proposal are listed here. If public comment procedure is undertaken or a panel meeting of experts and/or stakeholders is held (these are typical for significant programmes) during the planning stage, they should also be summarised. The Resource Division and/or Evaluation Division are able to require the Programme Divisions to undertake the public comment procedure for initiatives which the two divisions consider important. Whether the consultation document includes performance measures (including outcomes) is up to the Programme Division's decision.

The Appraisal Statement is used as a main document in internal discussions with the Resource Division during the planning of METI's resource request (budget, etc.). The Resource Division has the authority to determine whether to adopt a proposal at METI's request. Indicators and targets are required to be agreed on between the Programme Division and the central divisions of the ministry (mainly the Evaluation Division). During the procedures, the Evaluation Division, with cross-sectoral knowledge, assists the Programme Division in refining the form, while checking whether indicators and target levels are reasonably set, and whether the boundaries of the programme are clear enough. The Evaluation Division has to ensure at this stage that monitoring and evaluation are going to be conducted properly at later stages.

The Appraisal Statement is also used in discussion with the Ministry of Finance in the process of developing the government's expenditure budget request plan for the next fiscal year. The Appraisal Statement is made public after METI officially put forward its expenditure budget request plan. A Revised Version is published when the government expenditure budget plan is approved by Parliament (the Diet).

Indicators and targets set for loan programmes for promoting information technology related investments by Small- and Medium-sized Enterprises (SMEs) are shown below. Its full Appraisal Statement is published (in Japanese) on METI's home page www.meti.go.jp/.

Monitoring: The Programme Division is required to regularly collect data of performance indicators listed in the Appraisal Statement. Collected data is sent to the Evaluation Division. Monitoring is expected to be undertaken at low costs (minimum paperwork costs, in particular) so as not to unnecessarily detract resources from the programme implementation. In cases where the performance indicators do not show expected progress or an unexpected socio-economic change occur, however, the Resource Division and the Evaluation Division can make a request to start a detailed evaluation.

**Box 3. Indicators and targets of loan programmes
for promoting IT related investments by SMEs**

Output indicators and targets

- Support 5 525 SMEs through IT promotion loans by the end of March 2004.
- Support at least 3 900 of the loan users through the services of experts called "IT co-ordinators".
- Support 62 000 small enterprises through the IT promotion loan by the end of March 2004.

Output indicators are measured annually.

Outcome Indicators

- Actual IT investment amount per loan user compared with the user's plan.
- Profile of business break-through realised by IT investment.
- More than half of the users achieve their own objectives of IT investment.
- Satisfaction rate for the support by IT co-ordinators.

Outcome indicators are to be measured in March 2006.

(Ex-post) Evaluation: Evaluation is conducted, after a certain period of running a programme, in order to assess the quality of the programme and to extract lessons for the improvement of the programme itself or for policy-making in general. It is emphasised that evaluation undertaken internally must be action-oriented, providing information for specific actions to take to the Programme Division (and to the Resource Division, if necessary), rather than just a neutral study (though analysis of outcomes is usually conducted as part of the evaluation).

Cost-effectiveness is important in the evaluation activities. While there are hundreds of programmes that METI is in charge of, resources employable for evaluation activities are relatively scarce. In general, Programme Divisions conduct evaluations themselves while the Evaluation Division and the Resource Division review the draft evaluation reports before they are finalised. In important cases (such as when the programme accounts for a large part of the budget or they are technically difficult to evaluate), the Evaluation Division conducts the evaluations in co-operation with the Programme Division. This is called Intensive Evaluation. If necessary, experts of the METI's Research Institute or other outside institutions are employed.

At present, the format for how to actually undertake evaluations is not fixed due to the early stage of the initiative. Tentatively, however, the following elements are suggested in the guide:

- review the original rationale;
- compare expected and actual targets and costs;
- identify unexpected effects and costs;
- compare the current situation with how things would have looked without the programme;
- analyse causes and effects (including the effect of external elements);
- identify problems with the scheme and its implementation.

The methods employed for a particular evaluation depend on the characteristics of the programme and employable resources. Currently, METI is undertaking an experimental evaluation of an interest loan programme for SMEs. The methods used in this evaluation include the following: A simple statistical analysis of the fluctuation of the annual total amount of loan approvals, a questionnaire survey of effects on users of the loan programme, face-to-face interviews with users and local representatives, and examination of application processing.

A draft evaluation report is finalised after being reviewed by the Resource Division. For both normal and intensive evaluations, finalised evaluation reports are published. In addition, the Programme Division is required to take actions reflecting the recommendations shown in the finalised evaluation report.

Treatment of outcome measures; In spite of the fact that the importance of the outcome measures are generally recognised, concrete use of them in programme management needs to be proceeded with care. It is likely that the usability or effectiveness of outcome measures is greatly different from policy to policy depending on their natures. At present, the Evaluation Division requires the Programme Divisions *i)* to set performance indicators and targets for outputs; *ii)* to set performance indicators for outcomes; and *iii)* to identify outcome risks as far as possible. We have a feeling that outcomes are useful in showing the direction of the Programme Divisions and actual level of progression toward the direction. However, it is difficult, at least at present, to use them as performance targets that have real meaning as a programme management tool. In any case, accumulation of factual knowledge that is obtained from both performance measurement and evaluation seems necessary.

METI has started an internal project to have Programme Divisions set performance indicators for existing programmes, which are officially not covered by the appraisal-evaluation system. This attempt is intended to shift programme management toward performance-oriented, foster mergers of piecemeal projects (or programmes) with similar objectives and to make poorly performing programmes

visible. With the progression of the project, officials of Programme Divisions are getting familiar with managing performance indicators, while the Evaluation Division is accumulating broader knowledge in performance measurement

7. Reinforcing the policy management cycle through policy evaluation

In spite of the fact that the policy evaluation initiative is still in its early stages, the importance of policy evaluation is well understood inside and outside government. In August 2001, the Cabinet has made clear its intention to prioritise the output and outcome of programmes in planning the fiscal year 2002 expenditure budget. The focus is clearly shifting from resource controlling to achieving results. The first step of the introduction of the policy evaluation system seems to be successful.

What is important next is the realisation of the weaknesses of policy evaluation. For example, knowledge about the outcome risks (the lack of causal relations between policy actions and the changes of the outcomes) and the accuracy of appraisal is obviously insufficient so far. Feedback from performance measurement and *ex post* evaluations is important here. Through such learning, both the policy evaluation system itself and the way the system is integrated into the policy management cycle need to be continuously evolved. On the other hand, it is also true that individual ministries, which have specific but huge policy areas to cover, have rather scarce human and financial resources to put into such evaluation activities. Taking this restriction into account, it is rational for them to consider outsourcing some part or function of the evaluation activities rather than dealing with all of them in-house. Probably, the MPHPT, which will accumulate general measurement and evaluation expertise more easily, can take a more active role by developing collaborative relationships with individual ministries.