



ECONOMIC REFORM PROGRAMME

Monitoring Tool

For Tracking Progress of the
Reform Implementation



Economic Reform Programme
MONITORING TOOL
For Tracking Progress of Reform Implementation

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Foreword

Structural reforms are fundamental for the six economies of South East Europe (SEE) – Albania, Bosnia and Herzegovina, the Former Yugoslav Republic of Macedonia, Kosovo*, Montenegro, and Serbia – in their transition to becoming fully-functional market economies. They are also an indispensable pre-requisite for joining the European Union. To guide the accession process, SEE economies are required to prepare **Economic Reform Programmes (ERPs)**, which outline economies' medium-term macroeconomic and fiscal policy frameworks and structural reform agendas. The ERPs are reviewed at the highest instances of the EU and discussed at the annual Economic and Financial Dialogue between the EU and the Western Balkans and Turkey. Once agreed, they serve as roadmaps for governments to prioritise and implement needed economic reforms.

To support Western Balkan governments in this novel economic governance exercise, the European Commission mandated the **OECD SEE regional programme** to provide policy advice and capacity building to SEE governments in the ERP preparation and co-ordination process. Building upon its unique expertise in supporting economies in the region in the design and implementation of reforms in favour of growth, investment and employment, the OECD SEE regional programme engages in a highly collaborative policy dialogue with SEE government officials and stakeholders from the region to: 1) analyse the main constraints to growth and competitiveness; 2) identify policy responses and prioritise structural reforms; and 3) monitor progress in the ERP implementation.

The resulting **ERP tool box** aims to provide line ministries with a practical instrument that will help strengthen institutional capacities and boost inter-governmental transparency. It consists of three different tools, which can be used separately, or optimally, all together:

1. **The ERP Diagnostic Tool** identifies key structural obstacles that affect an economy's competitiveness and inclusive growth, offering two customised methodologies to analyse the state of play and to define constraints per policy area.
2. **The ERP Prioritisation Tool** helps authorities to select and prioritise reform measures for their annual ERPs using a three-step approach: By offering; 1) a set of screening questions; 2) an evaluation of proposed measures; and 3) a holistic review vis-à-vis all pre-selected reforms.
3. **The ERP Monitoring Tool** provides guidelines and examples on how to track progress in the ERP implementation over time as well as to measure immediate outputs and the outcome of reforms.

To support the effective implementation of the ERP tool box, the OECD has provided hands-on assistance to government authorities in preparing their annual ERPs, and in particular: 1) supporting governments in setting-up the ERP preparation process and building capacities of line ministries involved in the ERP; 2) providing extended ad-hoc analytical support on issues of regional interest as well as on specific requests from each economy, both in terms of analytical reports and policy workshops; and 3) reviewing the final ERP documents and providing its own assessment to the EC. The ERP tools were pilot-tested in selected SEE economies in 2016 and 2017 and are being constantly updated to reflect feedback from its users to align with changes in the ERP Guidance Note and process.

*This designation is without prejudice to positions on status and is in line with United Nations Security Council Resolution 1244/99 and the Advisory Opinion of the International Court of Justice on Kosovo's declaration of independence. Hereafter referred to as Kosovo.

Governments from the SEE regions and the EC have recognised the usefulness and relevance of these tools and the ERP exercise. They have contributed to better inter-ministerial co-ordination and to reinforcing economic governance structures across SEE economies.

Box. The ERP annual cycle and the role of the OECD

Since 2015 SEE economies have been developing annual ERPs. The ERP exercise derived from the European Semester and form part of the EU's multilateral surveillance and economic policy co-ordination procedures. The ERPs are centrally co-ordinated within each economy and endorsed at the highest political level. An official ERP Co-ordinator is appointed within the government who steers the process and ensures a widespread consensus. The work of the ERP Co-ordinator is typically supported by technical co-ordinators within each line ministry. Together they form an ERP Working Group that ensures broad ownership of the exercise and a whole-of-government approach. As one of the key institutions involved in this process, the OECD provides substantive support to the ERP Working Groups throughout the ERP annual cycle. Key milestones in the ERP annual cycle include:

Guidance for the Economic Reform Programmes (April): The European Commission (EC) issues the updated Guidance for the ERPs, providing detailed guidelines on the structure and content of the ERP.

Joint Conclusions of the Economic and Financial Dialogue (JCEFD) between the European Union (EU) and the Western Balkans and Turkey (May): Representatives of the EU Member States, the Western Balkans and Turkey, the EC and the European Central Bank (ECB), as well as representatives of the central banks of the Western Balkans and Turkey meet for their annual economic policy dialogue, to present a set of policy guidelines to support economies' efforts towards fulfilling the Copenhagen economic criteria. This policy guidance represents a cornerstone for SEE economies' subsequent ERPs.

Regional Meeting of the ERP Co-ordinators (May): The OECD and the EC jointly organise the yearly Regional Meeting of the ERP Co-ordinators to discuss the ERP Guidance Note and the OECD expertise to help prepare the ERPs. Meetings are attended by high-level officials from the Western Balkans and Turkey and present the opportunity to discuss lessons learnt and next steps in the ERP preparation, and present economy-specific work plans and support.

Commission's Overview and Country Assessments (June): The EC provides an assessment of the previous year's ERPs, taking stock of the implementation of the country-specific policy guidance. Together with the JCEFD, this document represents the basis for the following ERP cycle.

In-country kick-off events (June–July): In-country kick-off events take place in the SEE capitals to align all stakeholders involved in the ERP preparation process by setting a clear timeframe and clarifying responsibilities of line ministries. The OECD also takes this opportunity to discuss pending challenges linked to the previous year's exercise and key milestones to be achieved in the new cycle.

Policy seminars and capacity-building events (September–October): Upon ERP Co-ordinators' request, the OECD holds in-country policy seminars and capacity building events with line ministries to discuss specific structural challenges and potential reform priorities for each economy, suggesting ways to further improve them for the purposes of the ERP. For example, in the 2016 and 2017 ERP cycles, the OECD organised more than 30 seminars, involving over 800 participants collectively.

OECD review of the first draft ERP (October–November): After the submission of the first draft ERP, the OECD reviews and provides written feedback on the draft diagnostics and reform measures. To do so, key reference sources consulted include the OECD SEE regional programme publications, as well as other international analyses (e.g. from the European Commission, World Bank, EBRD) and international experts' feedback.

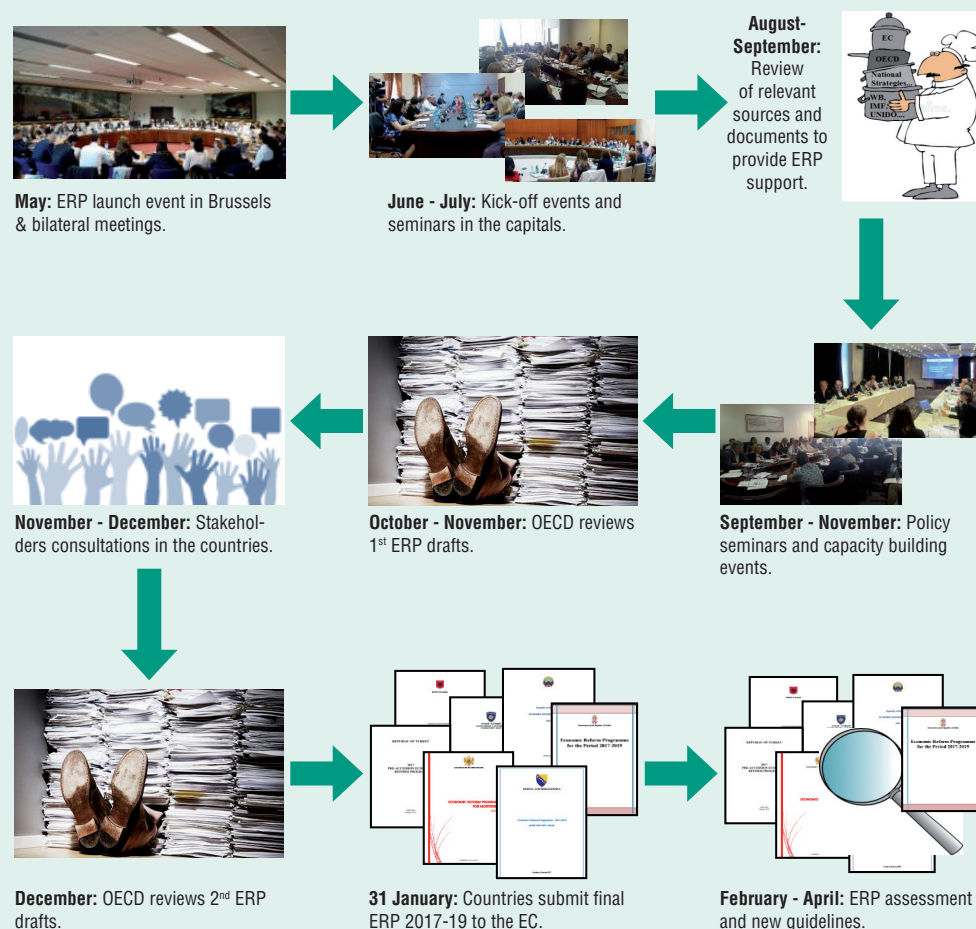
Box. The ERP annual cycle and the role of the OECD

Stakeholder consultations (November–December): ERP Co-ordinators undertake in-country consultations to receive feedback on the diagnostics and reform measures from relevant stakeholders, including the private sector, NGOs and international organisations.

OECD review of the second draft ERP (December): After the submission of the second draft ERP, the OECD reviews and provides feedback on the updated versions of the draft diagnostics and reform measures.

Submission of the final ERP to the European Commission and the OECD (31 January): Finally, ERP Co-ordinators submit the final ERP to the European Commission and the OECD.

OECD involvement in the annual ERP cycle



In addition, the OECD SEE regional programme provides analytical support on topics of regional or economy-specific interest when setting their structural reform agendas. For example, it has provided policy makers with a comprehensive growth diagnostic and a regional study on special economic zones. It examines their relevance as a policy tool for sustainable investment in the region and raises questions on potential deadweight effects, foregone revenues and competition distortion.

Acknowledgements

The ERP Tools have been specifically developed to support governments from the Western Balkans and Turkey to prepare their annual Economic Reform Programmes (ERP). They consist of three components to be applied in the different stages of the preparation process: the (1) *ERP Diagnostic Tool* to identify obstacles to competitiveness and growth; the (2) *ERP Prioritisation Tool* to select the most credible and growth-enhancing reform measures and the (3) *ERP Monitoring Tool* to track progress in the reform implementation.

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Introduction

The Monitoring Tool was developed by the OECD South East Europe (SEE) regional programme with the purpose of supporting governments of SEE in tracking the progress in the implementation of their Economic Reform Programmes (ERPs). The six Western Balkan economies prepared their first ERP for the period 2015-2017. It is thus adequate to start monitoring the progress achieved so far on these reforms as well as to assess their stage of implementation. This tool offers practical guidelines to enable governments to track systematically the implementation of structural reform measures of the ERP. Moreover, it attempts to build the foundation to assess their effects on specific segments or sectors in the economy. At the same time, it builds upon the European Commission's Guidance Note related to the ERP reporting, requiring a short description of the actions planned for the reporting year, the stage and the costs of implementation.

The tool is developed to guide government authorities in charge of co-ordinating the structural reforms of the ERP (i.e. ERP co-ordinators) as well as the line-ministries who monitor the implementation of specific sections of the ERP.

It first (Chapter 1) suggests relevant stages on how to monitor the progress in the reform implementation by:

- **Defining the aim** and scope of the monitoring;
- **Identifying suitable indicators** enabling the monitoring of individual reforms;
- **Reviewing the ERP implementation holistically** at the programme level; and
- **Evaluating the impact of reforms** by providing an overview of evaluation methods.

It then zooms into two types of monitoring (Chapters 2), providing practical guidelines and concrete examples on:

- **Process-based monitoring:** illustrating the **level of reform implementation**;
- **Result-based monitoring:** **measuring performance** of reform measures through quantitative and qualitative indicators.

Thirdly (Chapter 3), it provides a step-by-step approach for selecting relevant indicators, so-called key performance indicators (KPIs), distinguishing between process, result and impact indicators. This chapter will discuss the optimal number of indicators, the required properties for process, result and impact indicators for the ERP, and, in the end, what characteristics make indicators “good”, compared to the major challenges and constraints in their selection process.

Finally, (in Chapter 4) it presents the actors that need to be involved in the monitoring of the ERPs, the steps to be taken to set-up an operational monitoring mechanism, reporting methods and suggestions for medium-term assessment of the ERP.

Chapter 1

How to monitor reform implementation

How to monitor reform implementation

When policy makers decide to engage in monitoring activities, there are several steps to be followed in order to implement an effective monitoring mechanism:

1. **Defining the aim and scope of monitoring:** is the purpose to track the *state of implementation* of a reform, its *final result*, or both?
2. **Identifying suitable indicators** – so called **key performance indicators** - enabling the monitoring of individual reforms;
3. **Reviewing the ERP implementation holistically** at the programme level; and
4. **Evaluating the impact of reforms:** What methods can be applied to measure the wider economic impact of well-implemented reforms?

This chapter will provide some preliminary answers to these four questions, while the following chapters will go into the practical details on how to build effective process- and result-based monitoring mechanisms, and how to select relevant indicators for the ERP.

Step 1: Defining the aim and types of monitoring

Monitoring is a continuing function that informs where a policy intervention stands at a certain point in time, relatively to its targets and objectives. It does so by providing performance indicators and defining targets, and comparing them throughout the ongoing policy intervention. In other words, monitoring routinely compares the progress of an intervention against the implementation plan, tracking the input, such as the allocated budget, the direct output for the beneficiaries and the final outcome of the intervention (i.e. its wider impact on the economy).

Thus, it becomes of paramount importance to define in advance a concrete and clear list of actions and a timeline for the policy intervention. In the case of the ERP, the description of each structural reform measure envisages the description of i) the activities to be implemented each year, ii) costing estimates and budget coverage, and iii) expected outcomes. If this information is not available ahead of the monitoring process -whether it is unclear, confused or partial- it becomes very difficult to assess achieved implementation and results against a solid benchmark.

Table 1. Example of possible well- and not-well-described measure activities in the ERP.

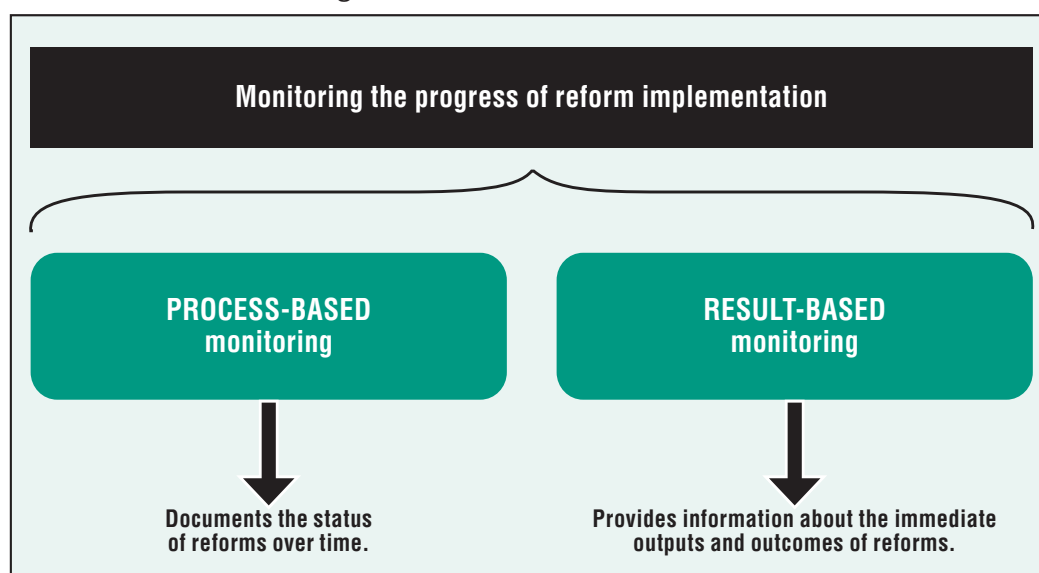
Measure: Construction of 80km high-speed railway segment between A and B	
Clear identification of activities by year	Not sufficiently clear identification of activities by year
2015 <ul style="list-style-type: none"> •Signing of the project and loan agreement between the Government and the Bank for Development (Q1). •Call for tender for constructors (Q2). •Winner selection procedure and contract award (Q4). 	2015 <ul style="list-style-type: none"> •Signing of the project and loan agreement. •Call for tender and winner selection.
2016 <ul style="list-style-type: none"> •Rehabilitation work on first part of pre-existing line until Km25 (Q1-Q2). •Lay-down of new high-speed railway from Km25 to Km50 (Q2-Q4). 	2016 <ul style="list-style-type: none"> •Construction works on the railway.
2017 <ul style="list-style-type: none"> •Lay-down of new high speed railway from Km50 to Km80 (Q1-Q3). •Upgrade works at railway station in B (Q3). 	2017 <ul style="list-style-type: none"> •Construction works on the railway and finalisation.

The results of monitoring are an important precondition for proper evaluation of the success of reforms and their impact on economic and social development. Thus, monitoring can provide valuable information on the process as well as the results of reforms. More precisely, the concept of monitoring can be distinguished into:

- **Process-based monitoring.** It documents the *status of reform implementation* over time. It allows the government to identify potential challenges during the implementation and to introduce re-adjustments if needed. A heat map can be useful to rank reforms against their level of implementation.

- **Result-based monitoring.** It details the *immediate outputs* and the *outcome of reforms*, programmes or projects in comparison to plans and targets. It provides evidence for evaluating the effects of a reform, its relevance and contribution to the achievement of wider objectives. The outputs and outcomes (results) can be measured through **key performance indicators (KPIs)**:
 - *Quantitative indicators* show the **direct outputs** in numbers (e.g. percentage of staff trained; number of schools/technology centres established; number of laws and regulations adopted/amended) or illustrate the change related directly to the undertaken activities (e.g. percent increase of registered businesses). When quantitative indicators hint to the **medium-to-long term outcome at a higher level** (e.g. employment rate as outcome of a labour market reform; FDI as outcome of trade agreements or improved business environment), they are specifically labelled as **impact indicators**;
 - *Qualitative indicators* provide information on the perception or experience related to reforms (e.g. with the introduction of the credit guarantee scheme SMEs find it easier to access financing from banks).

Figure 1. How to monitor reforms.



Tools and examples for the process-based and result-based monitoring will be discussed in detail in Chapter 2 and 3 respectively.

In sum, by gathering data and information on the performance of reforms, programmes and projects, monitoring can help to provide evidence for decision-making, improve government performance, enable accountability and transparency of stakeholders and support policy advocacy by providing strong arguments for continuation, re-adjustment or termination of a particular policy.

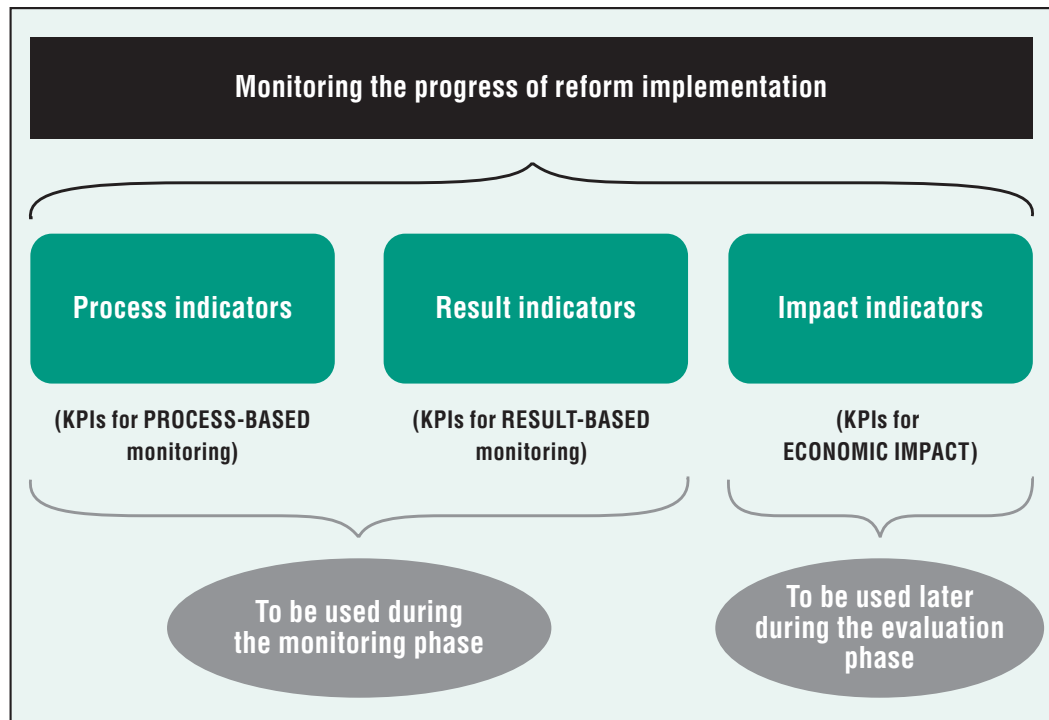
Step 2: Defining suitable indicators for monitoring

A set of monitoring indicators should be defined so that it follows the logic and structure of policy interventions. So-called **key performance indicators (KPIs)** should monitor both the implementation of the policy intervention and its results compared to objectives. When a set of policy interventions is planned in a single policy programme (such as the ERP, consisting of up to 20 priority measures across several policy areas), indicators are needed for implementation (“process indicators”) and results of each measure (“result indicators”), as well as for the overall economic impact of the programme (“impact indicators”) with respect to its overall objectives, once the direct monitoring

activity has been accomplished (in case of the ERP: increased competitiveness and inclusive growth).

Figure 2 illustrates three types of KPIs and how they relate to the concrete tasks they are expected to serve. Details about their selection, sources and constraints, will be analysed in the pertinent sections of Chapters 2 and 3.

Figure 2. Relevant categories of key performance indicators.



Step 3: Reviewing the ERP implementation holistically

Once the single measures have been analysed, an overall assessment of the state of implementation and the progress towards targets of the ERP should be conducted.

Such a review should take into account the pertinence of selected measures to tackle growth and competitiveness constraints in the economy. Measures should thus first be evaluated regarding their pertinence using the *ERP Prioritisation Tool* (if this was not already done in the preparation of the ERP). The *Prioritisation Tool* is meant to assist ERP co-ordinators in screening proposed reform measures against a basic set of criteria (pertinence, significance for economic development, feasibility), as well as to prioritise the set of reforms starting from the most relevant ones. In order to do so, the *Prioritisation Tool* introduces a number of impact scores, linked to several questions regarding each measure, in order to weight their relevance taking into consideration their impact on growth and competitiveness as well as their feasibility and potential risks. Further details and explanation can be found in the *Prioritisation Tool* manual. Thus, the impact scores for measures calculated by the *ERP Prioritisation Tool* should be used as weights in aggregating indicators of implementation status and progress towards target. The example on the next page explains how such a calculation can be made.

Combining information on significance of reforms for growth and the degree of implementation of the ERP programme for a specific year, a qualitative evaluation should be drafted regarding the effectiveness of the ERP and its expected effect on the economy.

Box 1. Example on how to calculate the progress achieved in the overall ERP implementation

Table 2. Example of a holistic ERP progress review table.

	Impact score ¹ (weights)	Stage of implementation ²	Timetable respected	Budget respected	Fulfilled implementation ³
Measure 1	8	4			76%
Measure 2	10	2	no		18%
Measure 3	11	5		no	95%
Measure 4	8	1			10%
Measure 5	13	2	no	no	21%
Measure 6	15	3			48%
Measure 7	6	4	no		61%
Measure 8	10	0	no		2%
Measure 9	12	3	no	no	46%
Measure 10	15	2			37%
(etc.)					
Weighted average		2,6			41%
Number of measures not respecting the plan			5	3	

Notes: ¹ The impact score is calculated by using the ERP Prioritisation Tool. ² The scale from 0 to 5 follows the implementation-based monitoring scale that will be explained in the next Chapter (II). ³ Calculated as simple average of achieved implementation across all indicators for the measure.

The table can be read as follows:

Taking into account the importance of individual reforms for the overall objective of growth and competitiveness, the ERP as a whole is still in the initial phase of implementation with some of the reforms already more advanced. With respect to targets, roughly 40% of the required effort was already made.

A half of measures are not being implemented according to the timeline and almost a third will use more resources than estimated by costing.

Step 4: Evaluating the economic impact of reforms

The results of the monitoring process are fundamental for the consecutive evaluation phase. While monitoring is essential to track the development and results of policy interventions, evaluation aims to analyse the success in achieving key objectives of policy intervention and its impact on economic and social change. With some simplification, it can be said that the evaluation tries to establish to what extent the economic and social changes documented by outcome and impact indicators can be attributed to the policy intervention.

Since policy reforms can have various direct and indirect effects on the economy at different levels, governments can use different methodologies and tools to evaluate them. While direct effects might be easier to assess through observation, indirect effects and the impact on the economy as a whole are more difficult to evaluate. Different evaluation methods can be used depending on how hard it is to assess the direct and indirect effects and impact of a reform:

- **Databases and documentation tools** can be used to assess reforms that have an *observable effect on only one sector* of the economy or when this effect can be deducted by using simple techniques such as benchmarking or basic statistical methods (e.g. improvement in infrastructure through investment, increase of FDI spurred by special incentives or economic zones, costs saved from administrative simplifications). Databases can be used from various international sources (National Statistics Agencies, Eurostat, IMF, World Bank, etc.) or set up by the government for specific projects. In general, surveys and empirical measurements can be useful documentation tools for the evaluation.

- **Input-Output Models** are relevant when the effect of the reform is hard to grasp, or when a *reform affects several economic sectors* (e.g. tax incentives or subsidies for specific activities or sectors). They rely on inter-sectoral data to determine how effects in one economic sector will impact other sectors (e.g. IMPLAM, RIMS-II and EMSI). This method relies strongly on an exact documentation of disaggregated data in the national accounts.
- **Econometric Models** can be a third option to *evaluate the direct and indirect effects and impact on the economy*, when it is neither possible to observe the effects, nor to calculate the impact with Input-Output data from the national accounts. Quantitative models can simulate and forecast or estimate the effect of a treatment (policy reform) on an outcome (e.g. GDP, employment rate, total factor productivity, etc.). Suitable models can include *Dynamic stochastic general equilibrium modelling* to explain changes in the economy (GDP growth, employment rates), *Panel Regression Analyses* or *QUEST* macroeconomic models to assess the impact of structural reforms.

After providing an overview of the types and methods for the monitoring and evaluation of reforms the following chapters will discuss the practical details in building process- and result-based monitoring mechanisms, and selecting KPIs.

Chapter 2

How to conduct process- and result-based monitoring

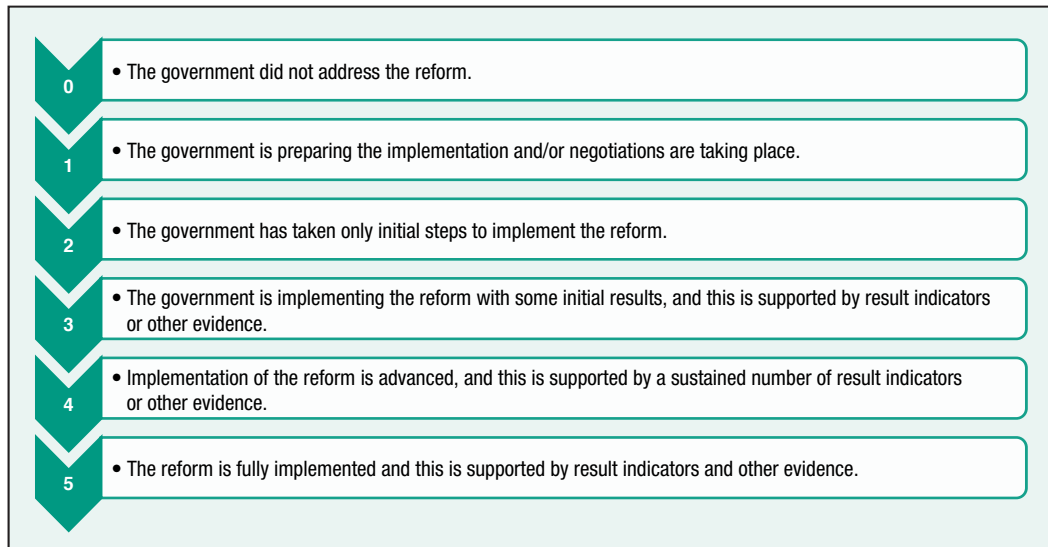
How to conduct process- and result-based monitoring

This chapter provides practical guidelines and examples of how to conduct process-based monitoring, which aims to track the *state of implementation* of a reform measure, and result-based monitoring, which focuses on the *output of the reform implementation*.

1. Process-based monitoring

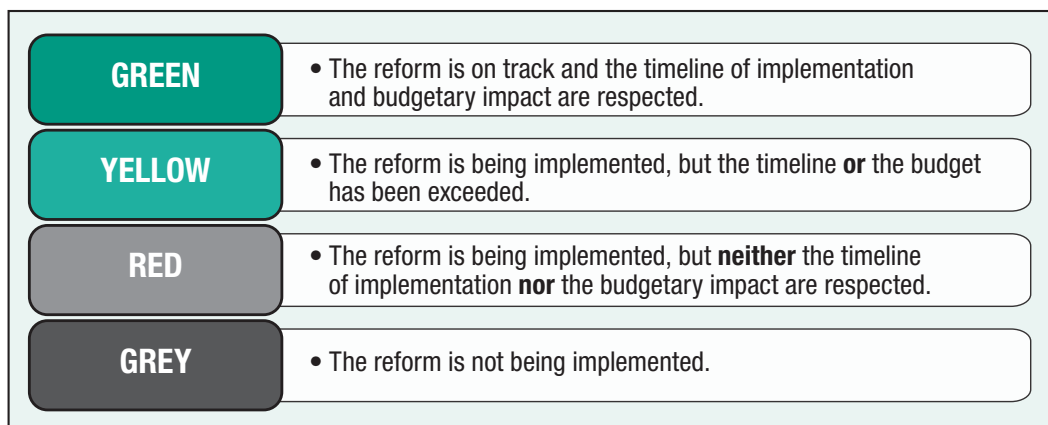
The level of reform implementation can be classified through a single matrix providing a detailed overview about where a reform stands. For example, reforms can be classified in six categories ranging from levels 0 to 5:

Figure 3. Classification levels according to the stage of reform implementation.



The classification of reforms with respect to the level of implementation can be complemented with information on whether implementation is proceeding according to time plan and within the estimated budget. A heat map (see Figure 4) can be used to present information on the level, timeliness and cost efficiency of implementation in a single overview table, providing an immediate understanding of where the economy stands in terms of implementation of the broad set of reform measures with regard to its own planned time schedule and cost estimations. Each reform can be classified by colour, as follows:

Figure 4. Colour signals to flag the state of implementation and costs (actual vs planned).



While the level (0 to 5) indicates the implementation phase, the heat map (colours) provides information about whether the phase matches the planned budget and timeline. Both pieces of information can be integrated into one monitoring table (see example below).

Box 2. Example of ERP process-based monitoring

Table 3. Combined stage and heat map.

COUNTRY ERP 2016	1Q2016	2Q2016	3Q2016	4Q2016
...				
Railway modernisation between municipalities X and Y	2	3	3	4
Increasing FDI-attractiveness in the manufacturing industry	2	3	4	5
Boosting regional tourism outside high season	1	2	3	3
Introducing the Law on local loop unbundling	0	0	1	1
...				

The example can be read as follows:

Railway modernisation between municipalities X and Y

- The Rail network modernisation was initiated by the government in the first quarter of 2016 (Level 2), the implementation continued during the second and third quarter (Level 3) and reached an advanced level by the end of 2016 (Level 4).
- The implementation works faced an unexpected delay in the third quarter (colour yellow), which dragged to the fourth quarter as well, requiring additional funds for the works to advance (colour red).

Increasing FDI-attractiveness in the manufacturing sector

- The reform is fully implemented and finished in Q4 2016 (Level 5).
- The planned time schedule of twelve months and the expected budget expenditures were right on track and fulfilled (colour green).

Boosting regional tourism outside high season

- The government started discussing the implementation of the measure in the first quarter, before initiating the project and implementing it during the year. Despite initial results, the implementation level of the project has not reached an advanced stage yet (Level 3).
- The expected time schedule could not be fulfilled in the second and third quarter of the year 2016. In order to reduce delays and bring the reform back on track, it was necessary to allocate additional funds in the last quarter of the year: the overall timeline was saved, but at a higher cost (colour remains yellow).

Introducing the Law on local loop unbundling

- The government did not address the issue till the second half of the year (level 0). Then, the competent authorities drafted the law proposal and presented it to the parliament, but adoption was delayed in the last part of the year (level 1).
- The adoption of the law was envisaged for the second half of the year (colour green), but prolonged and unexpected discussions in the parliament protracted it well into the last quarter of the year (colour yellow).

The implementation is monitored by *process indicators* that track the reform process against the initially set implementation table. Process indicators can largely match with the heat map specifically aimed for this purpose, Implementing agencies could also rely on an implementation table that facilitates the tracking of progress in implementation, while standardising it across agencies/reform measures (how such a table should look like is explained in Chapter 3).

To facilitate monitoring of implementation, the description of priority measures in the ERP should include a clear timeline for implementation activities and an estimate of implementation costs with planned sources of funding. Activities should be formulated in a way that allows a clear assessment whether they were completed or not. “Clear” means, above all, that the concrete action is well expressed, and that the activity can be easily identified among the usual activities of the competent authority, thus allowing assessing its concrete impact within the broader work of that institution. Activities that are too generic, or envisage a continuous improvement, or are hard to assess are not the best subjects for monitoring.

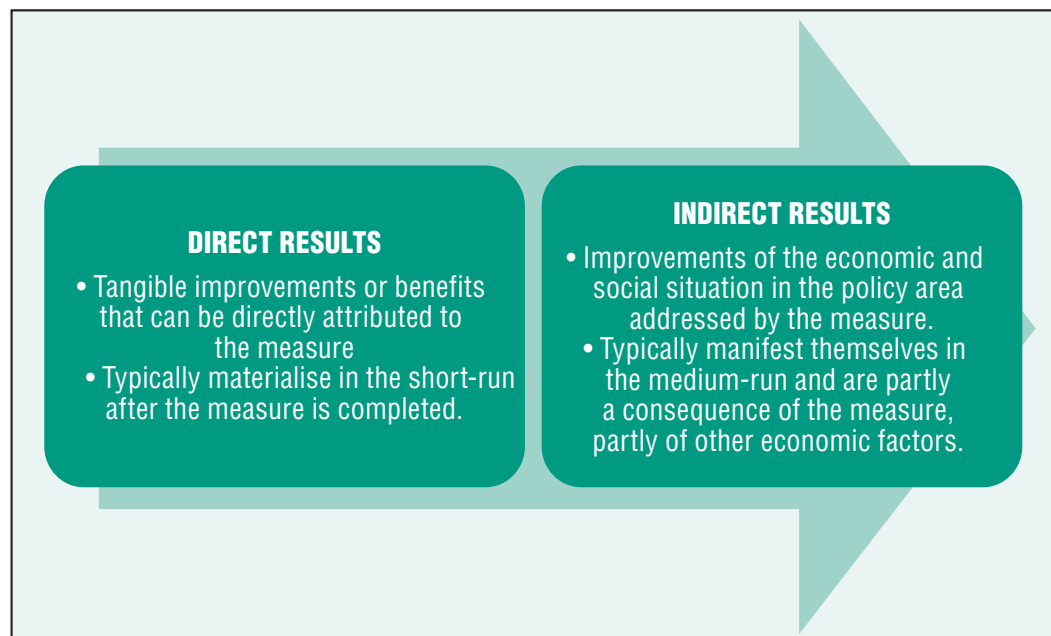
Table 4. Examples of well-defined and not well-defined activities.

Well-defined activities	Not well-defined activities
<ul style="list-style-type: none"> • Approving the law on telecommunications market liberalisation; • Adopting the national strategy on investment promotion; • Building the highway between W and Z; • Implementing labour market gender-inclusive policies; • Assisting the development of the food-processing industry cluster in the region of Z; • Providing capacity training for public officials in the Ministry of Economy related to support to SMEs; • 	<ul style="list-style-type: none"> • Constant improvement of the business environment • Improving institutional relations between the ministries • Unspecified regulatory improvement in R&D • Improving the quality of education • Increasing trade levels •

2. Result-based monitoring

While the process-based monitoring allows reporting on the state of reform implementation, the following step should be to evaluate the effect of a reform measure on a specific segment or sector in the economy: this can be defined as result-based monitoring. *Results of measures* take place at different levels (direct or indirect) and with different time horizons (short, medium or long-term):

Figure 5. Distinction between direct and indirect results of a measure.



Examples of direct and indirect results of reform implementation are illustrated below.

Table 5. Examples of direct and indirect results.

Direct Results	Indirect Results
<ul style="list-style-type: none"> • Reliable supply of energy or shorter transport times (thanks to improved infrastructure); • Lower costs of economic activity and investment (e.g. due to reduced administrative or fiscal burden, or availability of specific incentives for certain activities, sectors or types of businesses); • Improved skills and employability or targeted educational measures; • Increased income or better access to education, health or social services for beneficiaries of social policy measures 	<ul style="list-style-type: none"> • Intensified entrepreneurial activity due to business environment improvements; • Better access and lower cost of finance; • Less unfair competition from informal businesses or lower costs of corruption; • Indirect results of sectoral measures (e.g. increased production, value added or exports of the targeted sector); • Increased number of innovations or patents and higher value added through measures directed at R&D; • Higher participation to labour market, lower unemployment and lower risk of poverty for specific social groups (e.g. thanks to new labour and social policy measures).

The consequence of a reform implementation is monitored by *result indicators*, which can measure the concrete result of the reform action, and lay the ground to evaluate the effect of a reform measure on a specific segment or sector in the economy. Such indicators for each reform measure can be identified by the ERP co-ordinators and line ministries with the support of the OECD. They will serve the purpose to define concrete targets, against which the result of the measure implementation can be assessed (see Table 6), or, in certain cases, the delivery of services (such as new legislation, trainings, subsidies, employment programmes, etc.).

Box 3. Example of ERP result-based monitoring

A table for monitoring the results of the reform implementation against a set of base targets can look as the following:

Table 6. Result-based monitoring table.

Target (based on KPIs)	2015 baseline	2016		2017		Source
		Effective	Target	Effective	Target	
Establishment of 10 vocational training centres	20	24	X	30	30	Ministry of Innovation
50% increase in registered SMEs	200	230	X	265	300	Ministry of Economy
5% increase in employment	65%	66%	X	68%	70%	Ministry of Economy
Establishment of a credit guarantee scheme	no	no	X	yes	yes	Ministry of Finance

The example can be read as follows:

Establishment of 10 vocational training centres

- The government planned to establish ten vocational training centres by 2017, and reached the target.

50% increase in registered SMEs

- The government targeted an increase of 50% of registered SMEs by 2017, but the final outcome was considerably lower than expected.

5% increase in employment

- The government planned to reach the 70% threshold in employment, by 2017, and fell short of, at 68%.

Establishment of a credit guarantee scheme

- The Ministry of Finance successfully managed to establish a credit guarantee scheme by 2017.

The literature usually classifies result indicators into *output indicators* (related to direct and short-run results) and *outcome indicators* (related to indirect and medium-run results). But it is hard to always draw a clear line between outcome and output indicators or between output indicators and indicators for implementation of measures. The

dividing line largely depends on the nature of policy interventions that are monitored. For example, for interventions that are aimed at delivering services or other benefits to target beneficiaries, output indicators would monitor delivery of such services and outcome indicators would measure improvements in conditions of the target population.

A further complication with ERPs is that they consist of very diverse sets of measures, ranging from targeted actions aimed at addressing a specific issue in a relatively short time to full-fledged sectoral reforms with mainly medium to long run results. The choice of result indicators for ERPs should thus accommodate the specifics of each measure. This is further elaborated in the following section on methodology for selecting 'Key Performance Indicators' for the ERP.

Chapter 3

How to select key performance indicators for the ERP

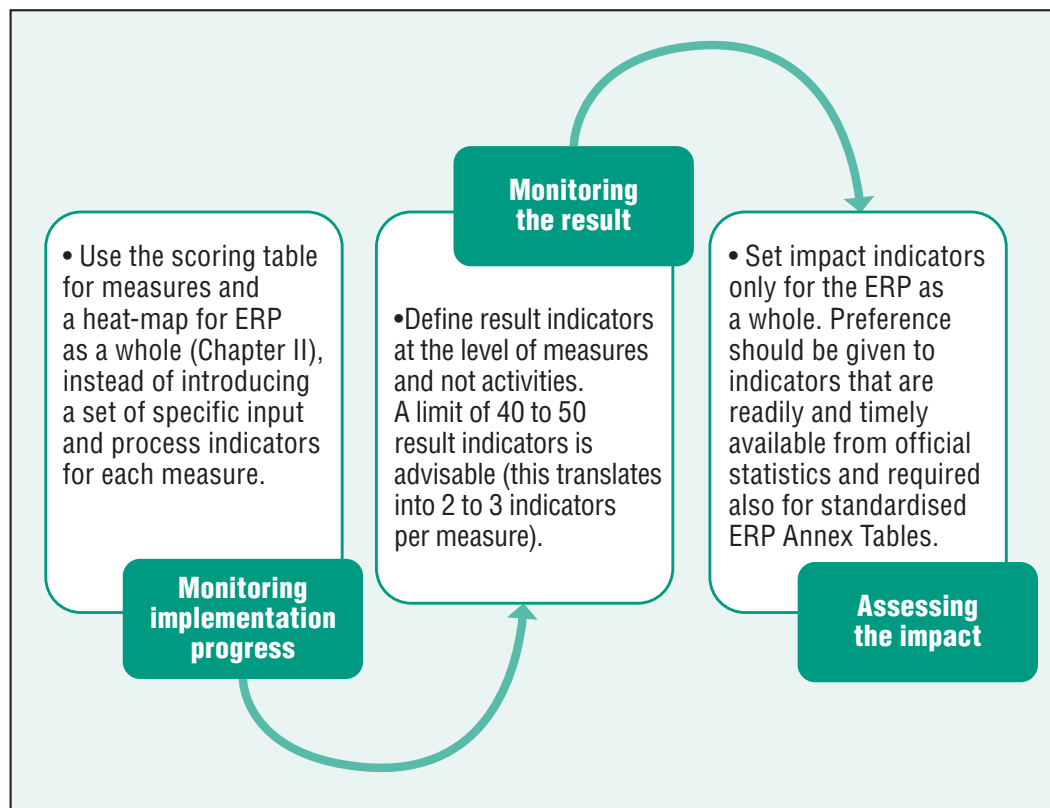
How to select key performance indicators for the ERP

After presenting the process- and result-based monitoring, in the next step the focus is on concrete aspects related to the selection of significant key performance indicators (KPIs). This chapter will discuss the optimal number of indicators, the required properties for process, result and impact indicators for the ERP, and, in the end, what characteristics make indicators “good”, compared to the major challenges and constraints in their selection process.

1. Number of indicators

It is essential to limit the number of KPIs to a reasonable amount, to keep the monitoring of ERPs manageable. A suggested approach to limit the number of indicators is:

Figure 6. Step-by-step approach in the selection of KPIs.



Additionally, when monitoring the results, it should be considered whether the same result indicator could be used for a set of closely related measures, in order to minimise efforts. For example:

- youth unemployment rate can be a joint result indicator for labour market and education measures;
- the share of high value added exports could be a joint indicator for a set of measures related to export competitiveness.

Similarly, in some cases broader indicators may reduce the need for more specific indicators:

- an indicator “average time of travel” for transport infrastructure may make indicators in terms of kilometres built redundant;
- an indicator “average number of contestants in public procurement” may make redundant the indicator “share of tenders published electronically”.

2. Process indicators

In the first step, ERP coordinators should ask implementation agencies to fill in the ERP Annex Table on “Reporting on implementation of structural reforms measures” for measures under their responsibility. The implementing agencies should also report on the actual budgetary and non-budgetary expenditure as well as funding allocated for the measure to the date of reporting. After collecting the required information, ERP coordinators should fill in a standardised monitoring table for each measure based on information received from implementation agencies.

Table 7. Standardised table for monitoring implementation of ERP measures.

MEASURE: #. _____	
STATUS OF IMPLEMENTATION (SELECT ONE OPTION)	Score
There were yet no activities for implementation or operationalisation of the measure.	0
Activities for operationalisation of the measure are underway (e.g. preparation of an action plan, coordination within the government, parliamentary procedure, consultations with stakeholders or similar).	1
Only initial implementation activities are underway with yet no tangible results.	2
Implementation activities are underway and some of planned results have already been achieved.	3
Implementation activities are at an advanced stage: more than half of planned results have been achieved and some evidence-based progress towards achieving the measure’s objectives has been made.	4
Measure is implemented: all activities are completed and planned results produced; substantial progress towards achieving the objectives is evidenced by result indicators or supported by other credible evidence.	5
TIMELINESS	
Is the implementation proceeding according to the timetable outlined in the ERP Annex (“Matrix on policy commitments”)?	YES/ NO
COST EFFICIENCY AND FUNDING (SELECT ONE OPTION)	Score
The actual costs of implementation exceeded those planned in the ERP Annex Table “Matrix of policy commitments”; or, based on the expenditures made so far, it is likely that the total costs of implementation will exceed the planned expenditures.	0
The actual costs of implementation so far did not exceed those planned in the ERP Annex Tables, but funds for implementation of the measure were not allocated /made available as planned.	1
The actual costs of implementation so far did not exceed those planned in the ERP Annex Tables, and funds for implementation of the measure were allocated as planned.	2

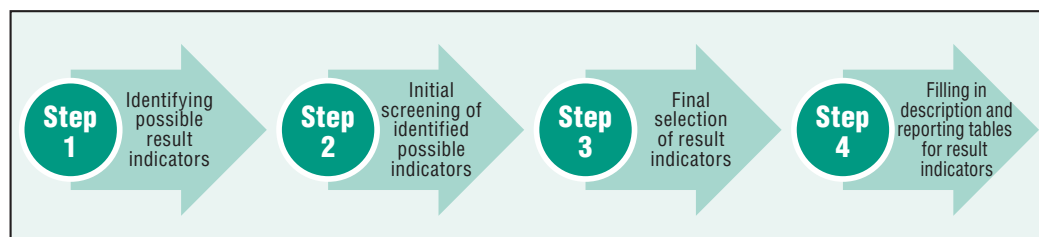
In the next step, standardised monitoring tables for all measures are combined into a single heat map, which can provide a convenient graphic overview of progress with implementation. The way how a heat map is assembled was explained in Chapter 2.

Still, an important consideration should be made regarding the necessity to preserve a sufficient degree of transparency and accountability during the monitoring process, while acknowledging certain flexibility in the exercise. As most of the reforms are naturally multi-faced and complex in their implementation, it is difficult to capture each specific case in pre-constructed charts with pre-defined scenarios. For example, in some occasions, the original reform plan might differ and be associated with increased costs and or delayed implementation timeline but it is based on a political consensus. Probably, in such cases, the government will do whatever necessary to carry them forward.

3. Result indicators

Selecting result indicators is a more complex task. It should take into account the specificities of measures and challenges in each ERP country and therefore cannot be standardised to the same extent as monitoring of implementation. The selection of result indicators should proceed in four steps:

Figure 7. 4-step approach in the selection of result indicators.



These four steps require a careful reasoning in order to make sure to include significant information, involving all relevant stakeholders while avoiding repetitions and weak indicators. The selection should thus proceed as follows:

STEP 1: Identifying possible result indicators

In the first step, possible results indicators are identified for each ERP measure. They may be identified by consulting a number of relevant sources:

Description of the measure. The wording of the measure's objectives or expected results can sometimes be directly transformed into a result indicator.

Diagnostics of the sector. Baseline indicators used by the Diagnostic Tool or by other studies that analysed the initial situation in the sector and were used for identifying priority measures can often be used as suitable result indicators for measures in that sector. Focus should be on those indicators that point at key obstacles for competitiveness and inclusive growth in the sector.

Related policy programmes. Result indicators used for similar measures in other policy programmes (e.g. sector or national development strategies) may be useful also for the ERP. This also contributes to streamlining monitoring and reporting processes for different programmes.

Official statistics. Data that statistical agency or public registries are already collecting and relate to the sector in question may be useful for measuring results of the measure.

Data collected by implementing agencies. Implementing agencies often collect data related to policies under their responsibility. For example, labour ministries or employment agencies may already collect data on registered unemployment. When such data are already available, they could be used as ERP result indicators.

Standardised international reports. Many well established international reports collect and regularly publish comparable data for ERP countries on issues such as competitiveness, business environment, governance, etc. They may be good candidates for result indicators for measures in related sectors.

Consultations. Consultations between ERP coordinators, implementing agencies, external experts and stakeholders may spark off a creative process of identifying and refining other possible indicators that are not used in sources listed above.

STEP 2: Initial screening of identified possible indicators

The purpose of the initial screening is to remove those indicators that do not meet essential criteria to serve as ERP result indicators from further consideration.

Screening is performed by checking possible indicators against a check-list of *screening questions* as presented in Table 8. The questions relate to the most essential quality properties and indicators that do not pass this test should not be used. The screening questions should be applied as soon as a possible indicator is identified.

Table 8. Screening questions for result indicators.

INDICATOR: _____	
MEASURE: #. _____	
SCREENING QUESTIONS	Actions
• Is the indicator measurable? Are its values numerical and based on data?	• Indicators not expressed in numbers or based on unsupported judgements rather than data should be excluded.
• Will data for the indicator for year X be available during year X+1 or at least X+2?	• Indicators available later than X+2 should be excluded. Those published in X+2 may be used if they are essential for the measure.
• Will data for the indicator be updated at least annually?	• Indicators not updated annually should be excluded, unless they are essential for the measure and updated at least every two years.
• If the indicator is based on data collected by the implementing agency, is the methodology transparent and verifiable?	• Indicators based on self-assessments that are not transparent and verifiable should be excluded.
• Will producing the indicator require substantive additional efforts and costs?	• Highly time-consuming or costly indicators should be excluded.

STEP 3: Final selection of result indicators

In this step, up to 3 result indicators are selected for each measure from those that were identified in the first step and passed the initial screening.

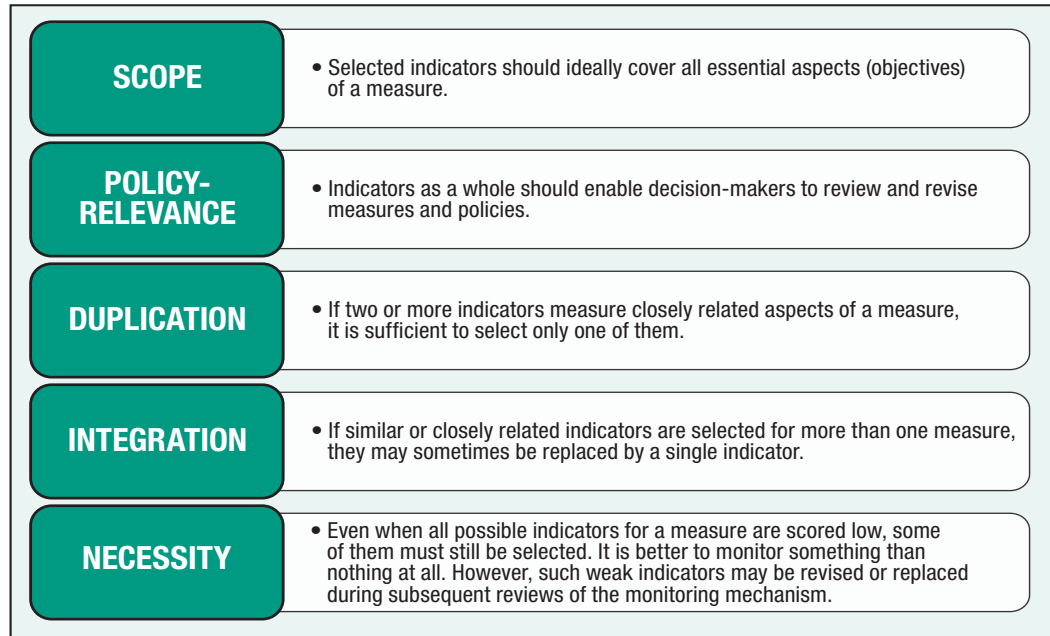
Selection is performed by checking possible indicators against a check-list of *selection questions* as presented in Table 9. The questions relate to other quality properties and are used to make an informed choice between possible indicators.

Table 9. Selection questions for result indicators.

INDICATOR: _____	
MEASURE: #. _____	
SCREENING QUESTIONS	Actions
• How relevant is the indicator for the measure?	5 – Indicator measures a key result / objective of the measure and will inform policy revision. 3 – Indicator measures other important results of the measure. 1 – Indicator measures less essential results or other aspects of the measure. 0 – Indicator is only marginally relevant.
• How specific is the indicator to the measure?	3 – Changes in indicator value are likely to result mainly from the implementation of the measure. 1 – Changes in indicator value may result from the measure but also from many other factors. 0 – The indicator is only weakly linked to the measure.
• What data is the indicator based on?	5 – Official national or international statistics or other well-established international data sets/studies. 4 – Other official sources produced on a well-defined and transparent methodology. 3 – Internal data of the implementing agency that can be verified by the coordinator / evaluators. 0 – Other sources.
• Will the indicator allow comparison in time?	5 – The indicator is available for past 3 years on a stable methodology and data sources. 3 – The indicator is available for some past years but there were substantial changes in the methodology or data sources. 0 – None of the above.
• Will the indicator provide breakdowns by sectors, regions, age groups, gender or other relevant aspects?	3 – The indicator provides all breakdowns which are essential for monitoring results of the measure. 2 – The indicator provides some of the relevant breakdowns. 0 – The indicator provides no relevant breakdowns.
TOTAL SCORE	

The final decision on indicators should be based on scores obtained from the check-list, but take into account some other important considerations:

Figure 8. Relevant aspects in the selection of effective result indicators.



The check-list should be filled in even when there are a small number of possible indicators that are likely to be selected out of necessity even if they score low. In such cases the check-list will provide information on indicator quality as a reminder to look for better indicators during review and evaluation of the monitoring mechanism.

STEP 4: Filling in the description and reporting tables for result indicators

Once the result indicators have been selected, basic information about indicators is presented in two standardised tables:

- *Description table* (Table 10): a short summary of key features of an indicator essential for its understanding and interpretation. Unless the methodology for producing the indicator changes, this table needs to be prepared only once.

Table 10. Description table for result and impact indicators.

INDICATOR:
MEASURE: #.
Definition	Write a short and clear summary of the indicator’s definition as provided by the source.
Unit	Name the indicator’s unit of measurement (e.g. growth rate, share, absolute values, index, etc.).
Source for indicator values	Name the source where the indicator is published. For indicators calculated by implementing agencies, put “Own calculation by ...”
Data sources	List sources of data from which the indicator is calculated (e.g. for indicator “unemployment rate” the data source is either a labour market survey or an unemployment registry). For indicators calculated by implementing agencies provide details of calculation to assure verifiability.
Frequency and availability lag	Frequency refers to the length of period for which the indicator is published (e.g. monthly, quarterly, annually, or other). Availability lag is the delay between the period to which the indicator relates and the usual time of publication. It is measured in months, quarter or years, depending on indicator’s frequency. It is expressed by X+n, where n is the delay expressed as number of time units that pass from the reference period to publication.
Breakdowns	List available breakdowns of the indicator (e.g. by economic sectors, company size, geographical area or administrative units, age groups, gender etc.).
Rationale	Explain why this indicator was chosen and what aspects of the measure (which objective or result) it is intended to measure.
Responsible institution	Name the institution responsible for providing values of the indicator to the ERP coordinator (e.g. implementing agency, another institution that produces the indicators or the coordinator itself for indicators that are directly and easily available from public sources).

Reporting table (Table 11): baseline, current and target values of the indicator. To be updated every time that monitoring of ERP implementation is performed.

Table 11. Reporting table for result and impact indicators.

INDICATOR: _____							
MEASURE: #. _____							
Unit		Name the unit of measurement for the indicator					
Values *							Target
2014	2015	2016	2017	2018	2019	2020	YEAR

Note: *The shading indicates the year in which the measure was first introduced in the ERP. N/A should be used for years for which data are not available.

Alternative table when the indicator is available by quarters

Values *								Target
	2014	2015	2016	2017	2018	2019	2020	YEAR
Year								Value
Q1								/
Q2								/
Q3								/
Q4								/

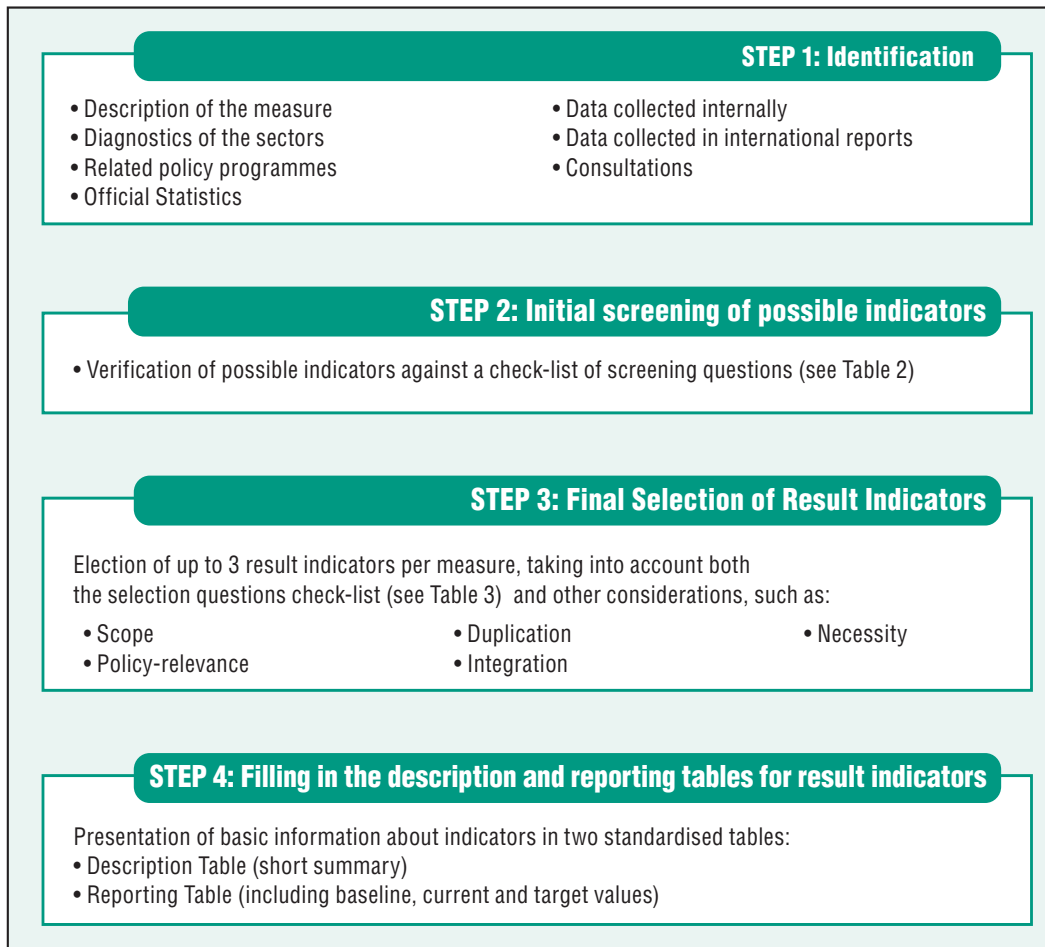
Note: *The shading indicates the year in which the measure was first introduced in the ERP. N/A should be used for years for which data are not available.

**Alternative table when breakdowns are available
(this example: key economic sectors)**

Values *								Target
	2014	2015	2016	2017	2018	2019	2020	YEAR
Total								Value
Agriculture								Value
Industry								Value
Services								Value

Note: Add rows as necessary. *The shading indicates the year in which the measure was first introduced in the ERP. N/A should be used for years for which data are not available.

Figure 9. Summary of the methodology for the Selection of ERP KPIs Result Indicators.



4. Impact indicators

Impact is the economic and social change to which the policy intervention has contributed in the medium to long-term. The expected impact is usually expressed by overall objectives of policy intervention. For ERPs, their impact should therefore be assessed in terms of their contribution to increased competitiveness and inclusive growth. *Impact indicators* for ERPs can therefore consist of well-established general measures of economic growth, competitiveness and social inclusion that can be readily obtained from official economic and social statistics.

The main problem with impact indicators for ERPs is not their selection which seems straightforward. Most of the relevant impact indicators are indeed required by standardised ERP Annex Tables. The real issue is *how to establish causality* between implementation of consecutive ERPs over a medium term and the changes in general growth, competitiveness and inclusion indicators. Changes in impact indicators cannot be interpreted as resulting from policy intervention without applying advanced quantitative methods for establishing causality (as discussed in Chapter 1).

For ERPs, whose overall objective is increased competitiveness and inclusive growth while preventing fiscal and macroeconomic imbalances, a set of impact indicators could comprise:

Figure 10. Potential set of relevant indicators for the ERP.



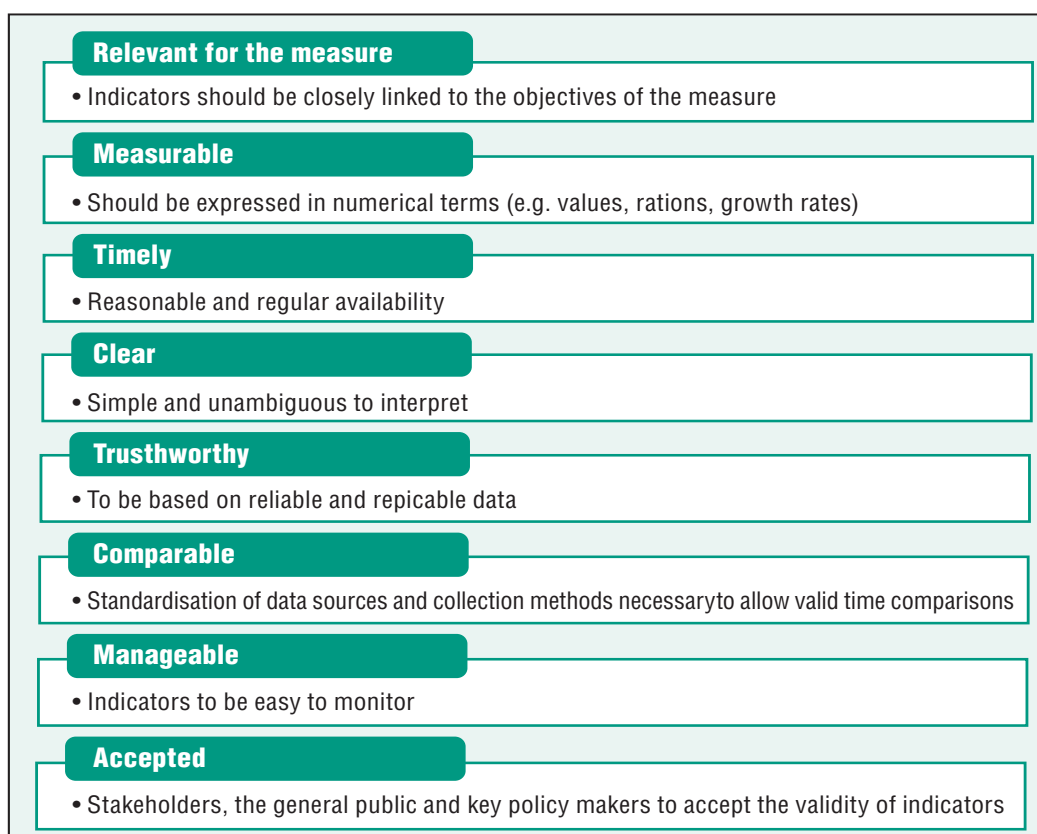
Preference should be given to indicators that are readily and timely available from official statistics and required also by standardised ERP Annex Tables.

In order to assure consistency and transparency of presentation, description and reporting tables (Tables 10 and 11) should be filled in also for each impact indicator.

5. Quality properties of good indicators

There are several sets of guidelines for good indicators. Despite differences between them, they all reflect some basic underlying principles and have many common denominators. Applying the same general logic, we could define the relevant characteristics of good indicators for the monitoring of ERP measures as follows:

Figure 11. Relevant characteristics of “good” ERP indicators.



6. Constraints in the selection of ERP indicators

Quality properties of indicators, as explained above, are highly demanding. Many individual indicators will fail to meet a number of them. In the context of ERP countries, quality of indicators will necessarily be compromised by two important constraints.

Data availability and timeliness. Quality of statistical and other official data is generally lower in ERP countries than in EU member states. Data that could be used for indicators are often published with considerable lag, lower frequency, less breakdowns, or not at all. Furthermore, introduction of best international standards for data production is a gradual process. This makes hard to assure that all indicators are *timely*, *comparable* or fully *trustworthy*. Replacing preferred indicators with second-best choices (or proxies) that score better on these criteria may compromise on other important properties, such as *relevance* of indicators. In some cases, it may even become a challenge to provide any *measurable* and *relevant* indicator for some of the policy objectives.

Monitoring and reporting capacity. Monitoring of ERPs by KPIs, especially on process and output indicators, requires close involvement of implementing agencies and not only of the ERP coordinator. Both implementing agencies and the coordinator often lack capacity for monitoring in terms of expertise and staffing. This capacity issue is further intensified by competing demands for monitoring and reporting on an increasing number of policy programmes. Lack of capacity makes it difficult to ensure that all indicators are *clear*, *evaluated*, *reviewed* and *manageable*.

These constraints imply that developing and implementing KPIs for ERPs will be a stepwise process involving not only activities directly linked to indicator development and monitoring, but also capacity building of ERP coordinators and implementing agencies, upgrading the quality of statistics and other official data, streamlining monitoring and reporting on policy programmes, and improving the overall coordination of government activities in policy planning and implementation.

Chapter 4

How to build monitoring mechanisms for the ERP

How to build monitoring mechanisms for the ERP

This chapter presents the necessary actors needed in the monitoring of the ERP, the steps to be taken to set-up an operational monitoring mechanism, the reporting methods as well as suggestions for medium-term assessments of the ERP.

1. Setting-up the monitoring mechanisms for the ERP

Actors involved in monitoring and their responsibilities

ERP political co-ordinator. The ERP political co-ordinator is a high-level decision-maker (a minister, deputy minister or top-level public official) nominated to the EC by their respective government as the official ERP co-ordinator. The ERP political co-ordinator is usually not directly involved in the drafting of the ERP; however, they ensure the programme reflects the key policy priorities of the government and that it remains a high priority on the political decision-makers' agendas.

Most ERP political co-ordinators are supported by co-ordination units or secretariats, which facilitate the operational work of the government.

The responsibilities of the ERP political co-ordinator with respect to monitoring include:

- Leading and promoting the process of setting-up and implementing the monitoring mechanism;
- Reviewing regular monitoring reports and submitting them to their government for consideration and approval;
- Leading the government's discussion of monitoring reports and proposing corrective actions;
- Presenting and discussing monitoring reports with the parliament, EC, ERP stakeholders and general public.

Ministry of finance. The ministry of finance (MoF) co-ordinates the preparation of the ERP chapters on the macroeconomic and fiscal frameworks, and in some economies also co-ordinates the preparation of the whole ERP document. The MoF should also ensure consistency between mid-term fiscal policy planning documents (e.g. Medium-Term Expenditure Frameworks) and planned costing and funding of the ERP's structural reform priority measures.

The responsibilities of the MoF with respect to monitoring include:

- Verifying information regarding the costs of the implementation of priority measures and their funding provided by implementing agencies;
- If the MoF is the implementing agency for a priority measure (e.g. in the public finance management or business environment sections of Chapter 4), its responsibilities are the same as those of other implementing agencies.

ERP technical co-ordinator. The ERP technical co-ordinator oversees the preparation and drafting of Chapter 4 in the ERP regarding the structural reform priority measures. The assignment of this role varies between economies and may or may not coincide with the ERP political co-ordinator.

The ERP technical co-ordinator is often supported in its tasks by an analytical team.

The responsibilities of the ERP technical co-ordinator with respect to monitoring include:

- Facilitating and advancing the process of setting-up and implementing the monitoring mechanism;
- Co-ordinating the selection of KPIs and assuring their overall coherency;
- Gathering data on the indicator values from implementing agencies or data producers;

- Gathering and checking information from implementing agencies on the implementation of ERP priority measures;
- Preparing regular monitoring reports, based on the assembled information and data and in consultation with implementing agencies, for the MoF and the ERP co-ordinator at the political level;
- Facilitating the government review of monitoring reports and developing recommendations for corrective actions in case of underperformance in the implementation;
- Facilitating the presentation and discussion of monitoring reports with their parliament, the European Commission (EC), the ERP stakeholders and the general public.

Line ministries and implementing agencies. Line ministries, agencies and other government or public bodies propose measures based on their relevant area of expertise and are then responsible for the implementation of those priority measures included in Chapter 4 of the ERP.

The responsibilities of line ministries and implementing agencies with respect to monitoring measures under their responsibility include:

- Proposing KPIs for priority measures;
- Providing data on indicator values to the ERP co-ordinator;
- Reporting on the implementation of measures to the ERP co-ordinator;
- Providing substantive inputs for regular monitoring reports, including explanations of any delays, cost overruns, funding gaps, changes in indicator values and their deviations from targets;
- Recommending corrective actions in case of underperformance.

Data providers. Data providers collect and share data with the ERP technical co-ordinator, who then uses the information for drafting the KPIs. Relevant national data providers are often comprised of the Statistical Office, the Central Bank (depending on the selection of KPIs), institutions responsible for public registries, as well as other official data sources, polling agencies, and institutes. Data produced by international organisations and institutes may also be used for drafting KPIs.

The responsibilities of national data providers with respect to monitoring include:

- Assuring full transparency and clarity on the methodology by which the data are produced;
- Assuring quality and timeliness in production of data that are used for KPIs;
- Prioritising in their work plans further development of data that would be useful for better ERP monitoring, e.g. by providing relevant breakdowns for existing data or by introducing new data sets that are relevant for ERP but are currently not available (e.g. statistics on research and innovation activity).

Setting-up the monitoring mechanism

The setting-up of an operational monitoring mechanism for the ERP involves five steps, of which steps 2 and 3 may be implemented concurrently.

STEP 1. Decision to establish a monitoring mechanism for the ERP.

It is advisable to start the process by a formal government decision to establish a monitoring mechanism for the ERP. The decision gives the ERP co-ordinator a clear mandate to commence activities for the development of the mechanism and to request the necessary co-operation and support from all stakeholders involved as well as international technical assistance (if available).

If the government is not willing to take a formal decision, it can be taken by the ERP co-ordinator at the political level. In this case, the political co-ordinator should inform all participating institutions of the intention to develop a monitoring mechanism, request their co-operation and task the ERP technical co-ordinator with leading and co-ordinating the process.

STEP 2. Choice of indicators and establishment of baseline and target values.

Ideally, the selection of indicators should be an integral part in the designing and drafting of a priority measure. Difficulties in identifying appropriate indicators often signal that the measure itself is not yet well specified and operational.

Priority measures are usually proposed by line ministries and implementing agencies that have the best knowledge of challenges in their area of responsibility and with regard to the available data sources and information. Therefore, they are the best placed to propose KPIs for their measures and to prepare description tables for result indicators. The ERP co-ordinator then verifies that the proposed KPIs comply with the basic quality requirements of the programme and advises on the selection of the most appropriate indicators among those put forth by the implementing agency (while keeping in mind their coherency and completeness with the entire set of the ERP indicators). Sometimes the ERP co-ordinator will also need to offer assistance or suggest alternative indicators to implementing agencies.

The methodology for developing and choosing indicators, as well as for setting appropriate targets, is described in more detail in Chapter 3.

STEP 3. Assignment of responsibilities.

The ERP co-ordinator should propose a division of responsibilities among institutions involved in monitoring. The list of actors and their responsibilities provided above can be a useful starting point, but it needs to be adjusted to the specifics of each economy in terms of its institutional structure, existing practices of policy co-ordination, as well as existing capacities of institutions. It is preferable to finalise the assignment of responsibilities in parallel with the work regarding the selection of indicators, and not decided up front with the initial decision to establish the monitoring mechanism (in Step 1).

STEP 4. Formal approval of the monitoring mechanism.

The way in which a government approves the monitoring mechanism – essentially consisting of a list of KPIs, assignment of responsibilities to institutions involved in monitoring and a timeline for reporting – will largely depend on established practices of co-ordination within the government.

Some options that may be taken into consideration include:

- A minimalistic approach includes selecting KPIs directly in the ERP (e.g. in descriptions of priority measures) and assigning the monitoring responsibilities of the implementing agencies into the instructions, for the preparation of the ERP distributed annually by the ERP co-ordinator;
- A more systematic approach requires preparing a separate document presenting the essential elements of the monitoring mechanism, including the institutions involved and their responsibilities; the frequency and timing of monitoring reports; a timeline for activities and for monitoring reports; and a list of selected KPIs with their description tables. In order to make the document binding, it should be approved and signed by the ERP co-ordinator at the political level;
- A formal approach entails approving a specific government decision (e.g. instruction, procedural regulation or similar), defining responsibilities of institutions involved in the ERP monitoring mechanism and a timeline of monitoring activities, including required regular reports. The decision could either include a list of KPIs or mandate the ERP co-ordinator to select the KPIs.

What is essential, regardless of the level of formality of approval, is that responsibilities for monitoring are clearly assigned and accepted by all institutions involved, and that the selected KPIs are accepted for monitoring the progress in achieving the ERP's objectives.

STEP 5. Adjustments of the monitoring mechanism during its implementation.

Preparation of the first regular monitoring reports for consideration by the government and all other stakeholders will likely uncover some weaknesses in the monitoring mechanism. They may relate to the assignment of responsibilities or to the selection of KPIs. For example, it may become apparent that re-assigning some of the responsibilities would increase efficiency or the quality of monitoring. It may also become evident that some KPIs are not the best fit for the purpose of the monitoring exercise, or that they are not accepted due to perceived lack of significance by stakeholders. New data or data sources may also become available that can be used for upgrading existing KPIs or replacing them with more appropriate ones. Furthermore, the adjustment of KPIs may be required when existing ERP priority measures are significantly revised or replaced by new ones.

Options for streamlining

The available options for streamlining are highly specific to each government, depending on its current existing co-ordination, policy planning and monitoring mechanisms. Some suggestions for streamlining that may be taken into consideration are listed below:

- Where a mechanism for regular reporting on activities implemented by ministries already exists, it may be appropriate to use the same mechanism and procedure for reporting on the implementation of ERP priority measures. The ministries would then need to report on the implementation only once for all their planned activities to the body that collects information on the implementation of the overall work plan. The ERP co-ordinator could then easily obtain the needed information from these reports and use it for regular monitoring reports on the ERP;
- Where ERP priority measures are derived from sectoral or national strategies and their action plans, the implementing agencies could consider aligning their reporting calendar for the strategy/action plan with the ERP reporting. This way the implementing agencies would be able to report on the ERP implementation together with the production of their own reports on the implementation of sectoral strategies/action plans;
- Where ERP priority measures are derived from sectoral or national strategies and action plans which already include indicators for monitoring their implementation, the same indicators can be included in the ERP;
- Wherever possible, indicators should be used based on data regularly produced and published by official institutions, or based on data that are already routinely collected by implementing agencies. The usage of indicators based on data which would require collection for the ERP monitoring specifically is not encouraged;
- Wherever possible, standard tables should be used from the ERP Annex to collect information from implementing agencies. For example, a slightly abridged costing table could be used for reporting on actual expenditures made and funds allocated for the measure, up to the date of reporting.

Regular reporting on ERP implementation and results

This section recommends a timeline for regular ERP monitoring reports, outlines the content of reports and explains the procedure for their preparation, including options for streamlining.

Recommended timeline and content of regular ERP monitoring reports

It is recommended that two monitoring reports are prepared during the annual ERP preparation cycle:

- *A mid-year monitoring report.* The mid-year report should be prepared shortly before the beginning of the work on the next ERP. The main purposes of the mid-year report would be to allow the government to take timely corrective actions to improve effectiveness of ERP implementation, and to inform the process of revision and prioritisation of measures for the next ERP. It should therefore provide comprehensive and detailed information on the current status of the ERP implementation and on its progress towards achieving its results. To allow the report to be as straightforward and clear as possible, it should be submitted for government internal consideration only;
- *An annual monitoring report.* The main purpose of the annual report would be to provide information to the EC, ERP stakeholders and the public on the ERP implementation progress and on the results achieved to date. It may therefore be prepared as a lighter and updated version of the mid-year report. It should be submitted to the government for approval together with the next ERP (in January) as its accompanying document or Annex.

Mid-year monitoring report

The mid-year report should be more comprehensive and detailed as compared to the annual monitoring report. It should cover both the current status of the ERP implementation and the progress towards achieving its results.

For monitoring the implementation, the ERP co-ordinator should gather and critically assess the information on the current status of implementation, score it using the standardised table for the monitoring of the implementation and present it in the form of a heat map¹. The accompanying text should highlight the established implementation gaps (that is, delays, cost overruns and funding gaps) and explain the reasons why these gaps have occurred.

Recommendations for corrective actions should be included. Corrective actions to improve the implementation may include, for example, measures to improve cost-effectiveness of implementation, prioritisation of the ERP implementation among the activities of implementing agencies, assuring additional funding or capacity for implementation, if justified, or revising the content of the measures for the next ERP.

The monitoring of results should be based on updated reporting tables². For each measure, the text of the report should comment on progress made towards reaching the target values and provide plausible explanations of possible causes for changes in indicators' values, including to the extent by which those changes may be attributed to the measure.

Where progress towards targets is found insufficient, corrective actions should focus on revising the activities of the measure so that they become more effective in achieving results, or even replacing the measure with one that would better meet the intended objectives. If implementation gaps are the main reason for insufficient progress towards the desired results, corrective actions for improving the implementation could assist in achieving better results.

Annual monitoring report

The same approach can be used for the annual monitoring report, but it may be prepared as a lighter and updated version of the mid-year report. It should update and assess the information on the reform implementation and then present it in a heat map. It needs to highlight and explain only the major implementation gaps. Since the full report is to be considered and approved jointly with the new ERP (in January), information of how the gaps were or will be addressed by corrective actions should also be provided.

For the monitoring of ERP results, it is sufficient to update the reporting tables for KPIs (potentially adding the most informative breakdowns and comparisons) and to highlight in the explanatory text the measures without any, or only negligible, progress towards

the target values. A summary of planned and already implemented corrective actions to improve the performance and effectiveness of measures should also be included.

Steps in preparation of ERP monitoring reports

As explained in the previous section, regular ERP monitoring reports should be co-ordinated and drafted by ERP co-ordinators, and presented to government by the ERP political co-ordinator.

The steps in the preparation of a monitoring report include:

1. *Collecting information on implementation and indicator values.* The ERP co-ordinator asks implementing agencies for information on the status of implementation of ERP measures under their responsibility, including information on any cost overruns or non-availability of planned funds, explanations of delays and recommendations for corrective actions if considered necessary. Implementing bodies should also provide the latest available values of KPIs using standardised reporting tables and provide comments on possible reasons for changes in indicator values.
2. *Drafting a monitoring report.* Based on received inputs, the co-ordinator prepares a draft monitoring report. During the preparation of the draft, the ERP co-ordinator should request any additional clarifications from implementing agencies and other institutions if necessary. Recommendations for corrective measures should also be included.
3. *Approving the monitoring report.* The ERP co-ordinator at the political level should review the draft report and then submit it to the government for consideration and approval. Possible comments and disagreements by the implementing agencies on the content of the report may be dealt with during the regular government approval procedure.

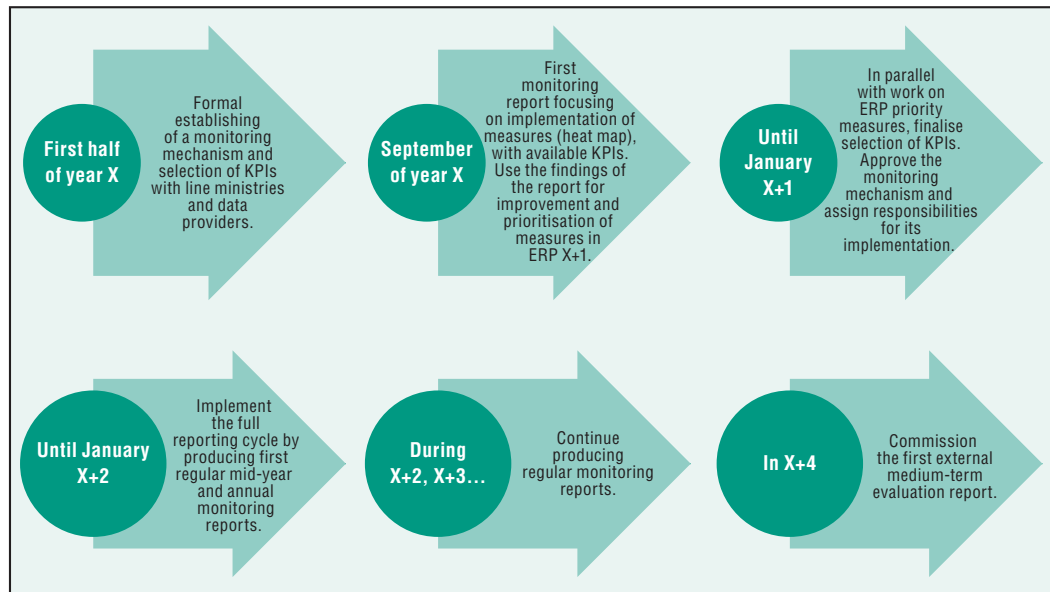
Medium-Term evaluation of ERPs

The purpose of a medium-term evaluation is different from regular monitoring reports. It does not focus on individual measures or results, but looks at the ERP process as a whole over a period of several years and assesses its impact on economies and societies. An evaluation should be conducted to determine if the ERP process has been governed and implemented as intended, and if it has contributed to reaching its key overall objectives for increased competitiveness and inclusive economic growth. In contrast to monitoring reports, where the findings may lead to corrective actions to improve the implementation and effectiveness of ERP priority measures, the conclusions of an evaluation report might signal the need to make substantial changes in the overall approach and design of the ERP process.

Regarding institutional responsibilities, the established best practice is that evaluations are performed by independent external evaluators. For ERPs, evaluations are conducted by national research institutes, academic institutions or think-tanks with sufficient capacity and experience, and potentially supported with technical assistance. The role of the ERP co-ordinator is to support external evaluators with information on ERP design, implementation and results, and to facilitate their communications with implementing agencies, high-level decision-makers and ERP stakeholders.

Due to the time required for the intended impact to be reflected in the data, the evaluation of complex medium-term policy programmes, such as a series of consecutive ERPs, are not performed every year. Therefore, for three-year rolling programmes such as the ERPs, producing evaluation reports every three or four years is more appropriate.

Figure 12. Suggested timeline for implementation of the ERP monitoring mechanism.



Notes

1. On standardised monitoring table and heat map, see Chapter 2.
2. On standardised reporting tables, see Chapter 3.



OECD GLOBAL RELATIONS SOUTH EAST EUROPE

The **Organisation for Economic Co-operation and Development (OECD)** is a unique forum where governments work together to address the economic, social and environmental challenges of globalisation. The Organisation provides a setting where governments can compare policy experience, seek answers to common problems, identify good practice and work to co-ordinate domestic and international policies. The OECD currently has 35 members and engages in extensive relations with partners from over 100 economies around the world.

Since 2000, the **OECD South East Europe regional programme** has closely collaborated with economies of the region to foster growth, investment and employment through reforms in favour of competitiveness and private sector development. The programme addresses regional and national needs, capacities and reform priorities; while translating OECD standards and best practices into actionable advice for South East European economies. The programme currently encompasses three main streams of work.

1. The programme supports Western Balkan partners in the preparation of their **Economic Reform Programmes** which are part of the EU Semester. The OECD aims to assist with relevant approaches and tools to facilitate the definition of adequate medium-term macroeconomic and fiscal frameworks along with specific policy reforms.
2. The OECD also works with policy makers from the region to benchmark progress with broad-based structural reforms, as reflected in a publication titled **Competitiveness in South East Europe: A Policy Outlook**. The Outlook compares progress on the basis of a comprehensive matrix of qualitative and quantitative indicators across seventeen policy dimensions key to competitiveness.
3. Another initiative of the programme focuses on policy reforms aiming to facilitate the implementation of the Small Business Act for Europe. The **SME Policy Index**, a periodic flagship publication, monitors convergence towards good practices, supports governments in setting targets for SME policy development and facilitates policy dialogue on future and current challenges.

The strong co-operation effort taking place under the auspices of the programme is carried out thanks to voluntary funding, in great part contributed by the European Commission.

