Overview of Public Sector Performance Assessment Processes in Japan

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This is a synopsis of Japan’s experience with public sector performance assessment processes between 2001 and 2010. This note presents a range of initiatives underway in Japan, including policy and activity evaluation, as well as the spending review exercise designed to make public sector service delivery more efficient. The intention of this note is not to necessarily endorse Japan’s approach, but rather to document it as a case study.

1. Background

The Government of Japan began introducing evaluation techniques in 2001 within the context of a Central Government Reform program that involved the establishment of new ministries and the integration and abolition of existing ministries.\(^1\) Japan’s approach emphasizes assessing policies and activities, and then incorporating results into future planning and budgeting, with a focus on making public sector programs and activities more efficient. Performance assessments were introduced to tackle substantial fiscal problems facing the state and also as a means to improve transparency and accountability. Since the late 1980s, Japan has experienced a long-term economic downturn and a continuous budget deficit (from -7.2% of GDP in 1998 to -2.6% in 2008). At the same time, a rapid increase in sovereign debt (from 113.2% of GDP in 1998 to 170.9% in 2008) required the government to tighten fiscal control. Japan’s approach has focused on reducing unnecessary expenditures through downsizing, elimination, and reallocating budget, rather than expanding effective programs or improving the incentives of agencies and civil servants to improve departmental or individual performance.\(^2\)

A unique aspect of Japan’s approach is the focus on transparency. Evaluation reports are publicly available online and certain review processes are broadcast live. Performance assessment initiatives were first implemented by the Ministry of Internal Affairs and Communications (MIC) in 2001, then by the Ministry of Finance in 2002, and finally by the new Government Revitalization Unit (GRU) in 2009.

2. Legal Framework

The Government Policy Evaluation Act (No. 86) came into effect in April 2002. The Act provides basic guidelines for ministries and agencies to conduct monitoring and evaluation. As specified in the Article 1, the purpose of this Act is i) to promote the implementation of policy evaluation, ii) to reflect the results of evaluations in the planning and development of policy, and iii) to publicize information on policy evaluation.

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\(^1\) Before 2001, the Central Government consisted of 1 Cabinet Office, 12 Ministries and 10 Agencies, which was rationalized into 1 Cabinet Office, 11 Ministries, and 1 Agency.

\(^2\) The term performance is used here in a broad sense to describe the attempt to conduct assessments of government policies and activities and determine whether they are worthwhile.
3. Evaluation Systems

The Government of Japan has developed extensive evaluation mechanisms through multiple agencies:

i. Ministry of Internal Affairs and Communications (MIC)

Under the Central Government Reform program, the MIC was established in 2001 through the integration of Ministry of Posts and Telecommunications, Ministry of Home Affairs, and a part of the Prime Minister’s Office. The MIC\(^3\) is responsible for the following assessments:

i) Policy Evaluation

The MIC plays a central role in monitoring and evaluation and developed an evaluation framework (both ex-ante and ex-post) for all ministries (Figure 1). The MIC provides guidance on the strategic management framework—helping to define inputs, outputs, outcomes, and targets for line ministries. Line ministries develop a 3 or 5-year Basic Evaluation Plan and a related annual Evaluation Implementation Plan. Each ministry conducts a self-evaluation of ministerial policies and activities to determine the degree to which policies and activities are necessary, efficient, and effective through a Plan-Do-Check-Action (PDCA) cycle and submit annual evaluation reports to the MIC. Evaluation reports are often descriptive and the use of Key Performance Indicators (KPIs) varies by ministry. The Ministry of Agriculture, Forestry and Fisheries (MAFF) evaluates individual activities and assesses the quality and the connection of activities in relation to overarching policies on an A-C scale with narrative descriptions, while the Ministry of Foreign Affairs (MOFA) uses a 1-5 star scale. The Ministry of Education, Culture, Sports, Science and Technology (MEXT) uses a structured inputs, outputs, and outcomes framework and key performance indicators (KPIs).

Ministries and agencies are required to submit annual evaluation reports to the Minister of Internal Affairs and Communication. All evaluation reports are submitted to the Diet and made available online to the public in August before the deadline for annual budget requests.\(^4\)

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\(^3\) The MIC is responsible for overseeing administrative organizations, the public service personnel system, local administration and finance, electoral systems, fire fighting and disaster prevention, information and communications, postal services, and other systems fundamental to the people's economic and social activities.
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The process of developing self-evaluation reports encourages ministries and agencies to analyze their policy agenda and prioritize necessary activities in the short and medium term. At the same time, pressure for line ministries and agencies to link evaluation results with budget requests is increasing. Linking evaluation results with the budget is still a relatively new concept in Japan. Line ministries are trying to adopt the new concept by linking their existing activities to the inputs, outputs, outcomes framework. In consequence, ministries and agencies do not want to narrowly specify activities in their budget requests as it allows them some autonomy to continue activities previously begun without eliminating or downsizing them.

ii) Top-down Program Evaluation

The MIC also conducts top-down evaluations of specific programs (8 programs screened in 2009, 15 in 2010), which are of strategic importance as defined by the Cabinet Office. The MIC annually decides specific evaluation themes based on the public opinions and consultation with prime ministers, vice ministers and experts.

Based on the evaluation results of these programs, the MIC provides policy recommendations to the relevant ministry and agency. Upon the receipt of recommendations from the MIC, each ministry and agency must implement the recommendations. Ministries and agencies report their actions to the MIC semi-annually and annually. Ministries are responsible for incorporating such recommendations and must reflect these recommendations in the upcoming budget requests made to the MoF. All annual evaluation reports are submitted to the Diet and made publicly available online.

The MIC also conducts separate policy evaluations of infrastructure and public works, Official Development Aid (ODA) programs, research projects, and autonomous agencies (known as Incorporated Administrative Agencies -IAAs).

ii. Ministry of Finance (MoF)

i) Budget Execution Review

In 2002, just after the Central Government Reform program was completed, the MoF introduced an annual Budget Execution Review to improve the linkage between performance of activities and budgeting through the PDCA cycle (Figure 2). This is a top-down review, where officers in the Budget Bureau and Local Finance Bureau select specific activities, miscellaneous fees, and contracts, which they consider of critical importance to improve budget use. Activities are analyzed according to three criteria: necessity, effectiveness and efficiency. The MoF provides recommendations to ministries and agencies for reconsidering the implementation of activities for improving the use of budget. Ministries and agencies must incorporate recommendations in the upcoming budget requests and reports are published online. In 2008, 63 activities were selected for the review and resulted in savings of 32.4 billion yen (0.04%) for the FY 2009 budget (Table 1).

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4 Each ministry and agency develops an Evaluation Implementation Plan in March, conducts a self-evaluation in April, publishes the results online, and incorporates the results in the budget request by early August. Each ministry and agency requests a budget from the MoF by the end of August and the next FY budget is decided in December.

5 In 2010, specific programs were selected under the pillars of “reduction of wasteful tax use” and “quality of life.”
Government Revitalization Unit (GRU)

The GRU was established under the Cabinet Office in 2009 after the Democratic Party (DP) took office.\(^6\) The DP decided to change the policy making process from the traditional model of a ‘technocrat-led’ to a ‘politician-led’ process. One of the policies was to reduce ‘wasteful tax use’ by revitalizing the public administration system through tightening budgets and reforming institutions from a citizen centric point of view.

The GRU is chaired by the Prime Minister and comprised of politicians, CEOs from the private sector, and other external participants appointed by the Prime Minister. The unit reviews specific activities and recommends eliminating or downsizing activities and induces line ministries and responsible agencies to reflect recommendations in their annual budget requests. The first review conducted by the unit was the Public Sector Activity Screening, and based on the results of the first screening, the unit decided to implement an annual Public Sector Activity Review in all ministries. These reviews

\(^6\) It is a coalition government with the Social Democratic Party (SDP) and People’s New Party (PNP), although the SDP left government in May 2010.
are designed to answer questions such as, how the budget is allocated, what the budget is used for, whether the activity is appropriate for the use of tax revenue, and whether activities are efficient and effective.

i) Public Sector Activity Screening (Jigyo-shiwake)

This is a centrally driven approach managed by the GRU to screen selected public sector activities. A review group is established, which usually includes elected officials from the incumbent party (e.g. DP) and coalition parties in the House of Representatives and the Councilors, professors, and CEOs from the private sector. Directors from ministries or agencies responsible for the selected activities sit down together with the reviewers at the same table and respond to the questions from the reviewers group. The review focuses on implementation of activities and budget execution, which are given one of three ratings: (i) partial improvements required, (ii) fundamental improvements required, or (iii) discontinued. The final results from the screening process are made on site. The entire review process is broadcast live through internet TV.\(^7\)

The first phase was conducted in November 2009 (9 days), screening specific activities in line ministries and IAAs. In total, 449 activities were reviewed and the review resulted in savings of total of 1.7 trillion yen (1.8%) for the FY2010 budget. The second phase was conducted April to May 2010 (8 days), screening 232 activities across autonomous agencies and public-service corporations.

Some of the critiques of this process include i) the selection of activities is subject to a political process, ii) the reviews only result in either downsizing or elimination, and iii) questions which are not immediately answered during the review process become reasons to eliminate or downsize activities.

ii) Public Sector Activity Review (Gyosei-Jigyo Review)

The GRU viewed the results from the Public Sector Activity Screening positively and considered instituting annual reviews of specific activities in the line ministries and agencies that would be reflected in annual budget requests. In March 2010, National Policy Unit under the Cabinet Office required all central ministries and agencies to set up a “Budget Inspection and Efficiency Team” that is headed by Vice Ministers and hold quarterly meetings. In the first pilot, 43 activities (25%) out of 179 reviewed were labeled as “discontinued” and an estimated 33.4 billion yen was saved, which will be reflected in the FY2011 budget request. Figure 3 illustrates the process conducted by each of these Budget Inspection and Efficiency Teams.

The purpose of these reviews are to a) fully understand budget disbursements and executions, b) review activities through an open process that includes third party experts, c) incorporate the results from the review in the implementation process and budget requests to the MoF, and d) improve organizational processes.

iv. Other Evaluation Mechanisms

The Board of Audit performs financial audits of government accounts. It is a government institution that is independent of the Diet, the Cabinet and the Courts. Recently, the Board of Audit introduced the concept of policy and activity evaluation using the 3Es (Economy, Efficiency, and Effectiveness). However, this has not been widely implemented.

Each ministry and agency also has some kind of internal audit function that focuses on auditing final accounts and advises internal management. The form of internal audit function differs in each ministry.

4. Local Government

Local governments (prefectures, municipalities, cities etc) are not legally bound to evaluate policies and activities, but many of them introduced a self-evaluation system. As of October 2009, 98% of prefectures (46 out of 47), and 50.6% (868 out of 1,843) of total local governments introduced some kind of evaluation system and the numbers are likely increasing. It is challenging for local governments since some activities are not linked with overall policies, particularly when small numbers of staff are involved. Mie prefecture is a good example of a prefecture which developed a policy evaluation system under the strong initiative of the Governor to improve management. The emphasis of this system is on managing for results and creating performance incentives for civil servants.

Table 2: Shares of Local Government with an Evaluation System

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<tbody>
<tr>
<td>Total Local Governments (LGs)</td>
<td>3,254</td>
<td>3,169</td>
<td>2,122</td>
<td>1,887</td>
<td>1,870</td>
<td>1,857</td>
<td>1,843</td>
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<td>Prefectures</td>
<td>46</td>
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<td>46</td>
<td>45</td>
<td>46</td>
<td>47</td>
<td>46</td>
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<td>Municipalities</td>
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<td>13</td>
<td>14</td>
<td>15</td>
<td>17</td>
<td>17</td>
<td>18</td>
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<tr>
<td>Cities, Wards, Towns, Villages</td>
<td>406</td>
<td>514</td>
<td>539</td>
<td>581</td>
<td>701</td>
<td>782</td>
<td>868</td>
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<td>Total LGs Introduced</td>
<td>465</td>
<td>573</td>
<td>599</td>
<td>641</td>
<td>764</td>
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<td>% Introduced</td>
<td>14.3%</td>
<td>18.1%</td>
<td>28.2%</td>
<td>34.0%</td>
<td>40.9%</td>
<td>45.6%</td>
<td>50.6%</td>
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Source: Local Administration Bureau, the MIC : http://www.soumu.go.jp/iken/pdf/100318_1.pdf
5. Reflections

In 2002, along with the Central Government Reform program, Japan passed the Policy Evaluation Act which requires government agencies to undertake both ex-ante and ex-post program evaluations. The government’s objective was to increase the efficiency of public services to address the fiscal problems facing the state and policy evaluation became a means to eliminate or downsize existing programs.

Japan has struggled in adopting a public sector evaluation system for a number of reasons. First, the concept of business-like managerialism is a new concept in Japan’s public sector. Second, Japan still has a line-item budget (no program or activity-based budget) and no Medium-Term Expenditure Framework (MTEF). Thirdly, ministries and agencies are not required to develop mid-term or annual ministerial/sectoral plans. The Basic Evaluation Plan guided by the MIC was the first attempt for the ministries and agencies to link ministerial policy outcomes to activities, although the quality of these plans remains an issue.

An imbalance in power between the GRU, MoF and MIC partly explains the fragmented approach to evaluation and the collection and analysis of performance information. The GRU, which is under the Cabinet Office, wields significant political power, the MoF has control over the budget, and the MIC operates under these two influential entities. As described earlier, separate evaluation systems have been developed by the GRU, MoF, and MIC. Multiple review processes have led to significant transaction costs among line ministries. Agencies spend a lot of time submitting documents not only for the evaluations developed by the MIC, but also for evaluations conducted by the MoF and the GRU. There is a tradeoff between preparing evaluation reports and running programs to get results. To date, there are no links between evaluation results and individual and ministerial performance. There is also a limited connection between the evaluation and spending review processes with the Board of Audit and internal audit function in each ministry and agency, but this remain unconnected to the Budget Inspection and Efficiency Teams.

However, the introduction of evaluations and review exercises has increased ministerial awareness of the purpose of activities they conduct and in creating important links with overall policy and budget processes. Significant strides have been achieved in the area of increasing transparency in the evaluation system. The next step is to get these newly developed systems to produce meaningful changes in performance, but this depends both on political leadership and on creating the right set of incentives among actors. It will be important to rationalize the system of assessments/evaluations to minimize the costs and enable real performance improvements.
References

Ministry of Finance (MoF): http://www.mof.go.jp/english/index.htm


Government Revitalization Unit (GRU): http://www.cao.go.jp/sasshin/ (Japanese only)

Board of Audit of Japan: http://www.jbaudit.go.jp/engl/index.htm

Cabinet Office: http://www.cao.go.jp/index-e.html
