

Application of 3E Methodology in Zhejiang Province A Case Analysis of Policy Evaluation

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Overview

The Central Committee of the Communist Party of China and the State Council gave opinions on the comprehensive implementation of the budget performance management, which sets out specific requirements about performance evaluation and application of the results. As a response, Zhejiang Province has made innovative breakthroughs in the performance evaluation methodology, and beefed up efforts to build a multi-tiered performance evaluation system that consists of departmental self-evaluation and randomized inspection, policy and project-related performance evaluation, department-wide performance evaluation, and comprehensive evaluation of the performance of lower-level financial divisions.

Zhejiang Province has reformed the traditional performance evaluation methodologies, and translated the 3E Model into specific and practical actions. It has taken the lead to make breakthroughs in the area of policy evaluation, and established a 3E-based performance evaluation framework with Zhejiang characteristics. Some progress has already been made.

Reform back- ground

Background: Zhejiang's reform of budget management deepens

01 The budget performance management system has continued to improve.

Zhejiang Province started the reform of budget performance management since 2003, and has explored in this direction of performance management for more than a decade. So far Zhejiang has successfully set up a whole-process performance management system with a solid foundation.

02 The reform of special funds management propels the shift of budget management

Zhejiang Province started reforming the management of special funds in 2014. Special funds have been consolidated and merged, which means all the special funds allocated to one provincial department are merged into one account, and are distributed based on the factor method or competition, and new special funds should be introduced with caution.

Two boundaries have been drawn as a result of the reform: one is the boundary between the the financial department and other business departments(the return of the functions back to the sector/business departments), and the other is that between the provincial government and the local governments (decentralization).

03 The targets and functions of performance evaluation have been shifted correspondingly

The assessed targets have been shifted from projects to policies (budget expenditures, the same below).

The contents of performance evaluation has been shifted from analyzing funds performance to improving policy design.



Policy evaluation is a natural outcome of the budget management reform in Zhejiang Province

The special features of policy evaluation

01 Flexibility and undefined boundaries.

02 The principles and methodology could be further applied to the department-wide evaluation and the evaluation of lower-level governments.

03 Has great significance, and will propel the efforts of developing a multi-tiered evaluation system.

04 More complex and difficult to carry out.

Question: how to develop a scientific policy evaluation framework?

The mainstream performance evaluation frameworks in China

01 Input-Output evaluation framework

Designing the evaluation methodology based on the pathway of input-process-output-effect.

02 Business-Finance evaluation framework

Analyzing from the two perspectives of business and finance.

03 World Bank's PART evaluation framework

Carrying out evidence-based evaluation from such perspectives as relevance, efficiency, effect and sustainability, identifying whether key developments have been achieved, and answering questions with evidence. (in accordance with the Guidelines on Performance Evaluation of Loan Projects by the International Financial Organizations)

Two logics can be identified here: 1 and 2 are indirect evaluation while 3 is direct evaluation.

The features of the indirect evaluation framework

Indirect evaluation methodology: Following the logic of “project (process) analysis-performance analysis”.

Pros:

Providing comprehensive, detailed and in-depth analyses, and massive information.

Cons:

01 Project-oriented analyses, focusing on the effects of the projects, rather than the cost-effectiveness of the expenditures.

02 Lots of redundant information are the inevitable results of the indirect evaluation methodology.

03 Some indicators can be inconsequential (at least 20 to 30 indicators are required), involving a lot of work; the details of the framework might hinder the evaluator’s creativeness.

04 There are doubts over the reliability of the evaluation results. Accurate falsity or inaccurate truth?

The feature of the direct evaluation framework

Direct evaluation framework: the performance is assessed directly, and the evaluation is finished when adequate evidence proves the three Es.

Pros:

01 Focusing on the essentials of performance evaluation, and measuring the targeted performance directly.

02 Rigorous logic.

Cons:

01 Deriving from the World Bank's loan project evaluation system, orienting towards projects (mainly engineering construction projects), lacking the budget management-oriented perspective.

02 A very complex evaluation system (50 indicators at least).

Logic constructi on

Conclusion:

The existing performance evaluation frameworks are not adequate to respond to the needs of policy performance evaluation, but do have some advantages that can be learned from.

What kind of logic frameworks does policy performance evaluation demand?

01 Budget management orientation

02 Suitable for policy analyses

03 The efficiency of the evaluation per se

04 Core indicators, simplest design

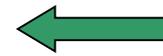
05 Science-based and self-evident results, ready to be used by the decision-makers

How Zhejiang builds a 3E policy evaluation framework

Philosophy: following the principle of directness and adopting the perspective of budgeting, and re-constructing the 3E principles

Simplicity, directness and efficiency are the main principles. The evaluation framework is designed from a budget perspective, and based on significance of performance evaluation and the internationally recognized 3E principles for performance evaluation. Economy, efficiency and effectiveness are the starting points for evaluation, on which analyses are carried out to determine whether they have been achieved.

3E indicators



Analyses and determination

The performance requirements are established first before the evidence is collected. It's only necessary to obtain adequate evidence to prove certain policies have achieved 3E. This is direct evaluation.

The adoption of a budget perspective

The publicness of the expenditures: Keeping the nature of public finance in mind, setting a boundary between the public and private sectors, and establishing accountability.

Balancing the administrative responsibilities with and expenditure responsibilities : Optimizing the organization structure of resources provision.

Input-output ratio: Maximizing overall benefits with limited resources.

Reconstructing the meanings of the three Es.

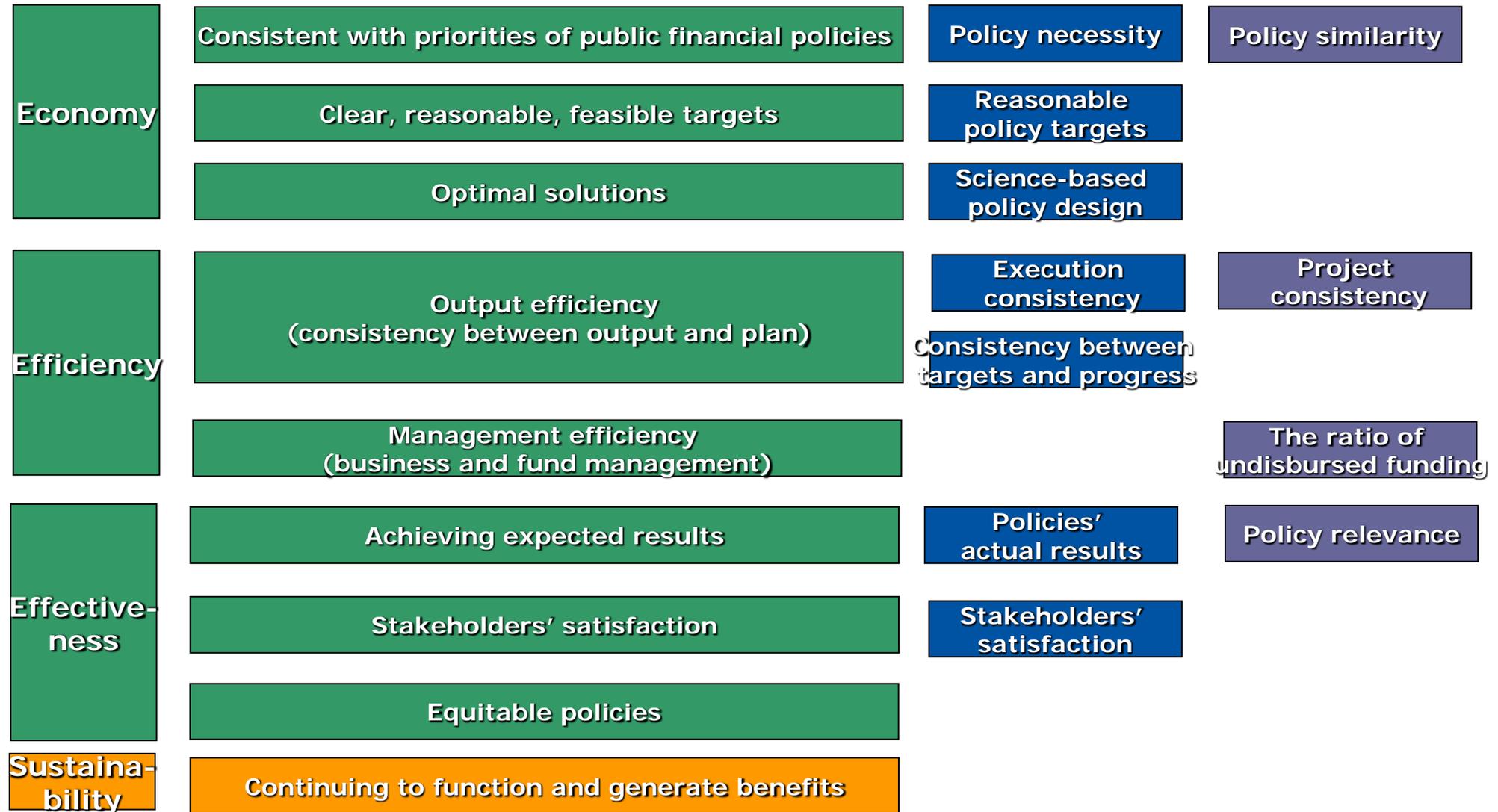
Economy: Achieving certain policy targets with minimum budget resources, and zero waste.

Efficiency: The efficiency that has been achieved while implementing policies, using funds and achieving policy targets with zero waste of resources.

Effectiveness: Generating the required or expected policy results.

Zhejiang Province's 3E Policy Performance Evaluation Framework

Logic
construction



Simplified key indicators are introduced for each category and developed by the evaluators. Evaluations are conducted for each dimension

Tables of evaluation results in the three dimensions

Logic constructi on

Evaluation dimensions	Score range	Weight range	Dimensional grade
Relevance (10 points)	[9, 10]	[90%, 100%]	Highly relevant
	[7.5, 9)	[75%, 90%)	Fairly highly relevant
	[5, 7.5)	[50%, 75%)	Moderately relevant
	[0, 5)	[0%, 50%)	Poorly relevant
Efficiency (10 points)	[9, 10]	[90%, 100%]	Highly efficient
	[7.5, 9)	[75%, 90%)	Fairly highly efficient
	[5, 7.5)	[50%, 75%)	Moderately efficient
	[0, 5)	[0%, 50%)	Poorly efficient
Effectiveness (10 points)	[9, 10]	[90%, 100%]	Highly effective
	[7.5, 9)	[75%, 90%)	Fairly highly effective
	[5, 7.5)	[50%, 75%)	Moderately effective
	[0, 5)	[0%, 50%)	Poorly effective

Note: 1. The ranges for each dimension are open to changes and can be established based on specific policies.

2. It is not mandatory to establish ranges for each dimension. Conclusions can be given by the evaluators based on the scores for each dimension.

The significance of 3E evaluation conclusions: well-targeted

01 Economy: resolving the question about cost-effectiveness, and analyzing the return ratio of budget investment.

02 Efficiency: resolving the question about efficiency, and analyzing how efficiently budget resources are used to implement policies.

03 Effectiveness: resolving the question about effectiveness, and analyzing whether policy results are achieved.

[Examples of evaluation conclusions]

If such conclusions are given about some policy: poor economy, highly efficient, very good results, what does this imply?

The government should not have taken this action.

If such conclusions are given about some policy: good economy, poorly efficient, moderately effective, what does this imply?

The government has taken the right action, but did not do it right, and has to make improvements.

Appli- cation

Case analysis: Zhejiang Province's policies about economic development and emerging fishery industries

Policy overview: It is intended to boost the growth of marine economy and accelerate the development of emerging fishery industries in Zhejiang Province. Since the reform of managing special funds in accordance with lists, it has been incorporated to the special funds for comprehensively managing and boosting fishery industries in Zhejiang Province. This policy covers three categories, namely industrial development, managerial and technical services and other services.

Evaluation framework design: Carrying out analysis about the policy design and implementation progress in line with the 3E principles, and designing an evaluation framework on the basis of adequate literature studies and preliminary researches.

Application

Evaluation framework for policies related to marine economy and emerging fishery industries (only 10 indicators)

Evaluation dimension	Primary indicators	Secondary indicators	Evaluation standards
Correlation (10 points)	Policy necessity (5 points)	Solid basis (3 points)	Consistent with priorities of public financial policies and central and provincial strategies plans
		Similar policies (2 points)	Not similar to or overlapping with other provincial special funding programs, and not overlapping with other departmental routine work
	Science-based policy (5 points)	Clear targets (2 points)	Setting clear and definite targets for mid- and long term plans and annual plans
		Science-based and reasonable designs (2 points)	Science-based, reasonable and feasible policy design
	Efficiency (10 points)	Policy execution efficiency (6 points)	Execution consistency (3 points)
Output quality and quantity (3 points)			Consistency between actual outputs and planned targets
Policy management efficiency (4 points)		Business management efficiency (2 points)	Authorities at the province, city and county levels should approve, review, monitor, and inspect the projects in a timely and sound manner.
		Funds management efficiency (2 points)	Funds should be allocated and used in accordance with the plans and regulations.
Effectiveness (10 points)	Policy results (7 points)	Benefits of all implemented projects (7 points)	Benefits generated by policy-supported projects
	Policy satisfaction (3 points)	Satisfaction about implementation (3 points)	Stakeholders' satisfaction

Appli- cation

Evaluation conclusions:

- 1. Moderately relevant.** Lacking solid policy bases, unclear policy targets, supported contents overlapping with other policies, part of which have been covered by functional departments.
- 2. Poorly efficient.** Many supported projects do not meet the policy requirements, and many are not concluded, which lead to a high funding surplus ratio.
- 3. Poorly effective.** Unstrict policy implementation results in poor overall benefits.

It is suggested this policy be cancelled, based on the evaluation and analysis of the policy's economy, efficiency and effectiveness and main related problems.

Evaluation result application: The funding policy was cancelled.

Further thoughts on the logic

There are three questions worthy of attention when we evaluate policies.

Relation between policies and specific projects With the huge amount of policy supported projects, should a top-down or bottom-up evaluation methodology be adopted? Based on our practice and experience, a top-down approach is better, namely initiating the evaluation from the policy level. Attention should also be given to specific project outputs and benefits, which however only takes up a small proportion in the overall evaluation framework. [e.g. local government bonds performance evaluation]

Relation between policy benefits and budget inputs: The correlation between budget investments and policy benefits, namely whether budget investments have exerted key influences on policy benefits generation, should be further examined. [e.g. whether the business area where the market plays a dominant role demands massive funds is open to discussion.]

Relation between macro influences and policies: Whether related macro influences are attributable to the implementation of policies should be examined; policy benefits cannot be exaggerated; the influence of government functions on social economy should be evaluated based on facts, so as to prevent departmental functions from expanding without a limit. [e.g. the correlation between macro economic indicators and budget investments]

Further thoughts on the logic

Further thoughts on the 3E model

01 The essential ideas of the 3E model are identifying the key and core problems, and pursuing accurate and simple evaluation.

02 It can be further applied in overall departmental evaluation and other areas.

03 Evaluation display is not limited to the three dimensions covered by the model, and more display patterns can be introduced based on the features of different evaluation subjects, or in other words, the contents are more important than forms.

04 The 3E methodology can be further applied in all the aspects of government performance management.

Thank you!