

**The Public Sector and Economic Reforms:
This Time it must be Different
-- Lessons from International Experience--**

Dr. Edilberto Segura
Partner, SigmaBleyzer
President of the Board, The Bleyzer Foundation
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Public Administration as a Reform Bottleneck

- In Ukraine, as in many countries, the main bottleneck in the implementation of economic reforms has been inadequacies in the **government itself** and in particular of its **public administration**.
- These public administration inadequacies include issues such as:
 - an excessive number of agencies with unclear roles,
 - overlapping of functions and responsibilities,
 - cumbersome decision-making with multiple consultations,
 - when decisions are made centrally, they are not implemented due to coordination problems among agencies (Ministers report often that they do not know what happened to their decisions) .
 - excessive government interference in productive activities with excessive regulations and red tape
 - vested interests and corruption that make implementation of any change of the status quo quite difficult.
 - secrecy in operations, or lack of transparency that make them not accountable to taxpayers.

Effects of Public Administration Inadequacies

Examples of the negative effect of these inadequacies are as follows:

- Business de-regulation do not work because, as licenses and regulations are eliminated, vested interests in the un-reformed bureaucracy ensured that they would re-appear later on under different names.
- Decentralization does not work because a “powerful center” continues to exert command functions over the so-called decentralized agencies.
- Enforcement of anti-corruption measures are ineffective due to the absence of a key corruption preventive measure: a leaner government -- with a heavy bureaucracy, the opportunities for corruption remains widespread.
- Civil Service reform by itself does not help because smart people are recruited and trained to execute the wrong roles and functions of the state.
- New government procurement laws are ineffective due to continued interference of the central bureaucracy in the procurement process that find multiple reasons for exemptions to the law.
- Many policies are not implemented because of competition among agencies with similar roles and cumbersome decision-making.

Public Administration Reform

- In fact, changes in economic policy can be conceptualized and approved by a small and capable group of political leaders.
- But their **implementation** requires the institutional upgrading of a state apparatus that can put in place and execute these reforms over time.
- Therefore, **the mother of all reforms** is the reform of public administration which should de-sovietalize public institutions, making them compatible with a free and competitive market economy. The main changes include:
 - the size and structure of the government,
 - the elimination of agencies with overlapping functions,
 - the reduction of government functions to a well-defined “core” set,
 - the deep decentralization and privatization of “non-core” roles.
 - the simplification of government operational procedures & regulations
 - the upgrading of civil service.
- Without changes in public administration the implementation of other reforms and improvements in business environment are likely to fail.
- THIS TIME UKRAINE MUST DO ITS REFORMS DIFFERENTLY

Public Administration Reform Benefits and Failures

- Upgrading the capacity of Government institutions is necessary not only to ensure the success of the implementation of most economic and social reforms, but also to improve **the delivery** of government services and public goods to the people.
- A broad public administration reform will take time; but important initial benefits can be felt quickly from the initial steps -- if the plan is well-designed.
- On the other hand, only 35% of about 120 PA reform programs in the world have been successful.
- Failures were due to lack of **political will** (no sense of urgency), lack of **leadership** (no reform champions capable of enthuse others), unclear reform **objectives** (lack of a compelling vision), failures to get wide **support** (poor communications), poor **management**, **conflicts** with vested interest and with informal rules-of-the game.

IMPROVE WELFARE
(QUALITY OF LIFE)

HIGHER INCOME

LOWER UNEMPLOYMENT

LOWER INCOME INEQUALITY

HIGH RATES OF
SUSTAINABLE
ECONOMIC GROWTH

INVESTMENT IN
EDUCATION,
HEALTH AND
ENVIRONMENT

PROTECTION
OF THE POOR

*The Three Pillars
of Sustainable
Development*

FISCAL BUDGET
RESOURCES

FOREIGN & DOMESTIC
PRIVATE INVESTMENTS

PRODUCTIVITY
GROWTH

IMPROVED BUSINESS ENVIRONMENT
for superior profits and reduced risks

MACROECONOMIC
POLICIES for Stable Prices
and Foreign Exchange Rates

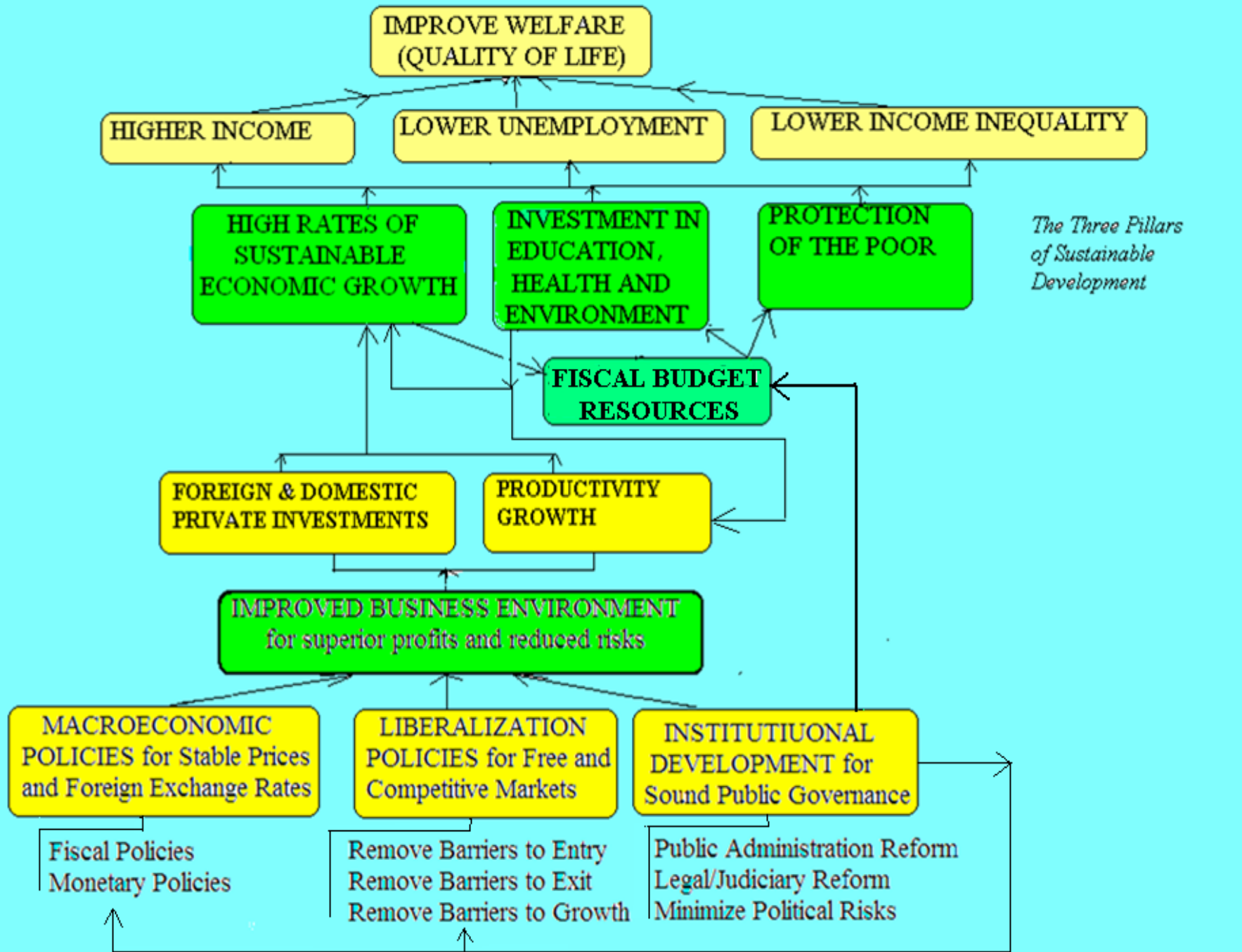
LIBERALIZATION
POLICIES for Free and
Competitive Markets

INSTITUTIONAL
DEVELOPMENT for
Sound Public Governance

Fiscal Policies
Monetary Policies

Remove Barriers to Entry
Remove Barriers to Exit
Remove Barriers to Growth

Public Administration Reform
Legal/Judiciary Reform
Minimize Political Risks



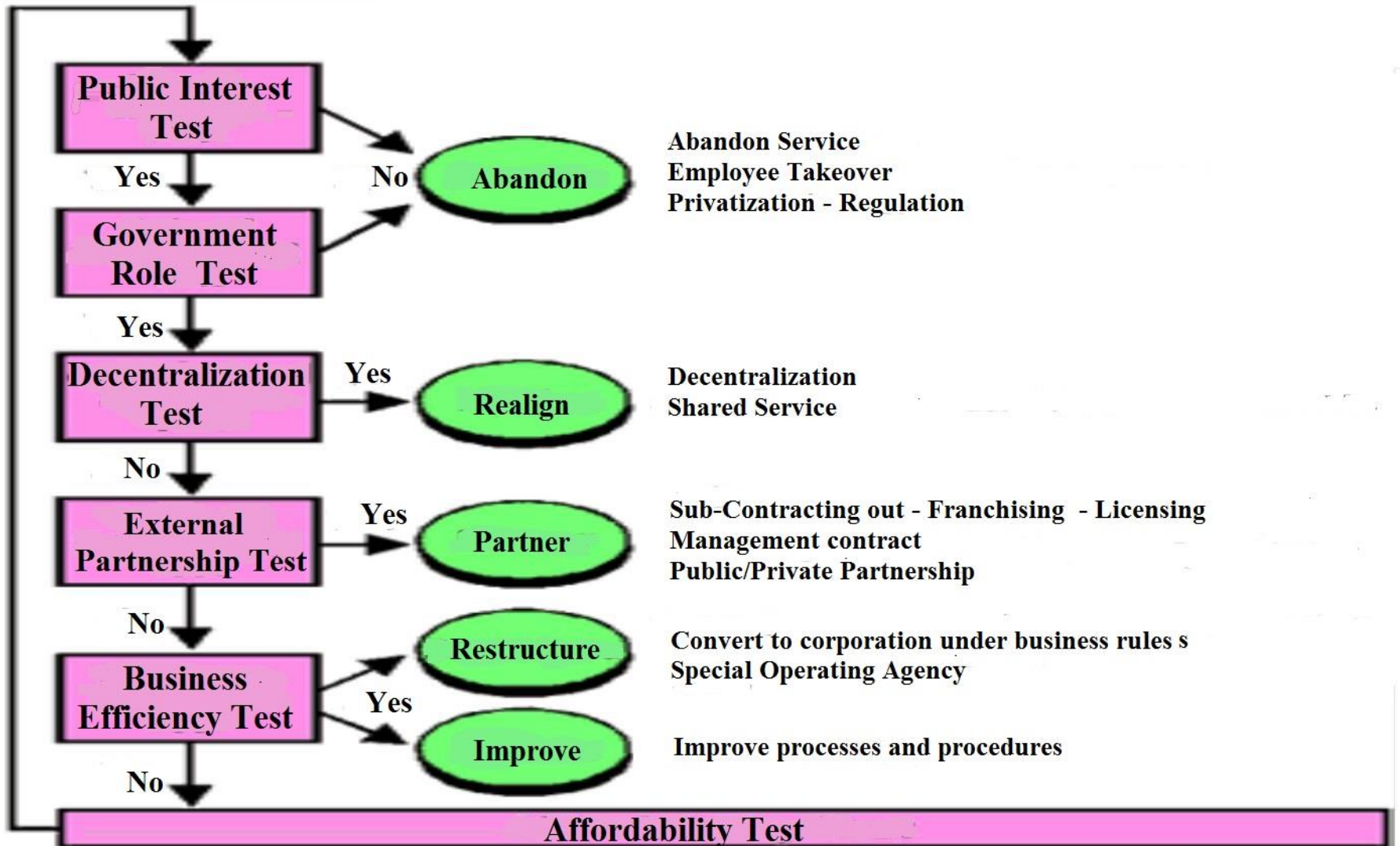
International Experience: Canada

- By the mid-1990s, for decades Canada had developed a welfare state with expensive social programs that led to large fiscal deficits of 6% of GDP.
- During 1985-94, Canada tried to reduce fiscal deficits gradually while maintaining government programs (i.e., by limiting salaries & budgets).
- These public administration reform efforts were gradual and incremental.
- But they were also ineffective and de-moralizing.
- In 1995, a new PM decided to do “**urgent major surgery**” to carry out major changes in the government’s roles and size.
- The key to the success was that at the outset, the **objectives** of the reform were **agreed upon by stakeholders and civil society**: to reduce Gvt roles & expenditures to achieve a budget deficit of 3% of GDP, while improving the delivery of a more limited set of “core” government services.
- A **strong Central Unit** was created under the Cabinet of Ministers that would manage and coordinate the analysis and make recommendations to an Inter-Ministerial Committee with outside reviewers.
- The Central Unit decided to organize a comprehensive “Inventory” and “Audit” of all government programs and functions: all agencies were instructed to carry out a self-review of their own programs and operations.

.....Canada

- Agencies were told that these Program Reviews had to be based on:
 - (i) target notional budget cuts of between 5% - 60% per agency; and
 - (ii) a pre-specified Questionnaire that contained only six questions for each pre-identified function/program:
 - (1) Is this program of clear "**public interest**" and is so why?
 - (2) Is there a strong case for a "**government's role**" in doing it?
 - (3) Can this be done better by other "**jurisdictions**" (the provinces?)
 - (4) Could this be done "**externally**" by a private sector/partnership?
 - (5) If kept, how can it be made more **business-like** & efficient?
 - (6) Is the program "**affordable**" & are there resources for it?
- Based on the responses from the agencies, the Central Unit identified and recommended to the Inter-ministerial Committee the following:
 - the set of government's "**core**" functions that should be retained and the "**reduced**" targeted allocation of budget resources to them.
 - Other essential "**non-core**" functions that should be delegated to local governments, subcontracted or privatized.
 - Other non-essential functions that should be eliminated.

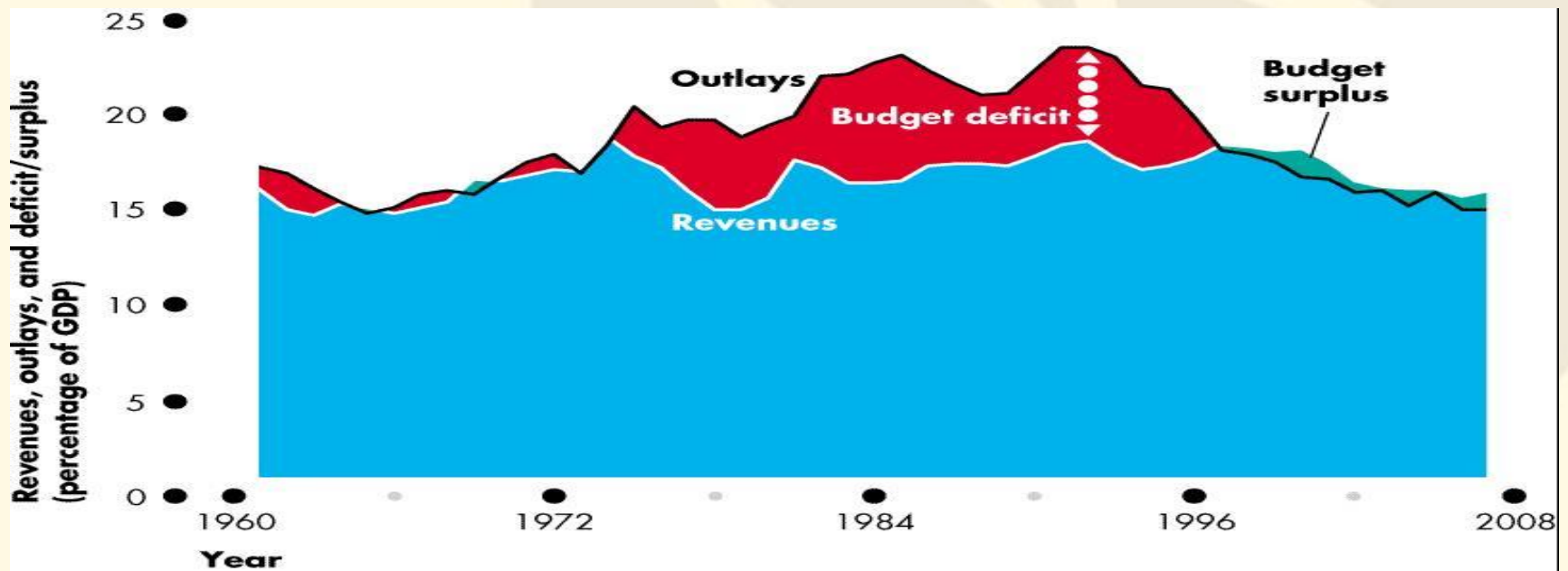
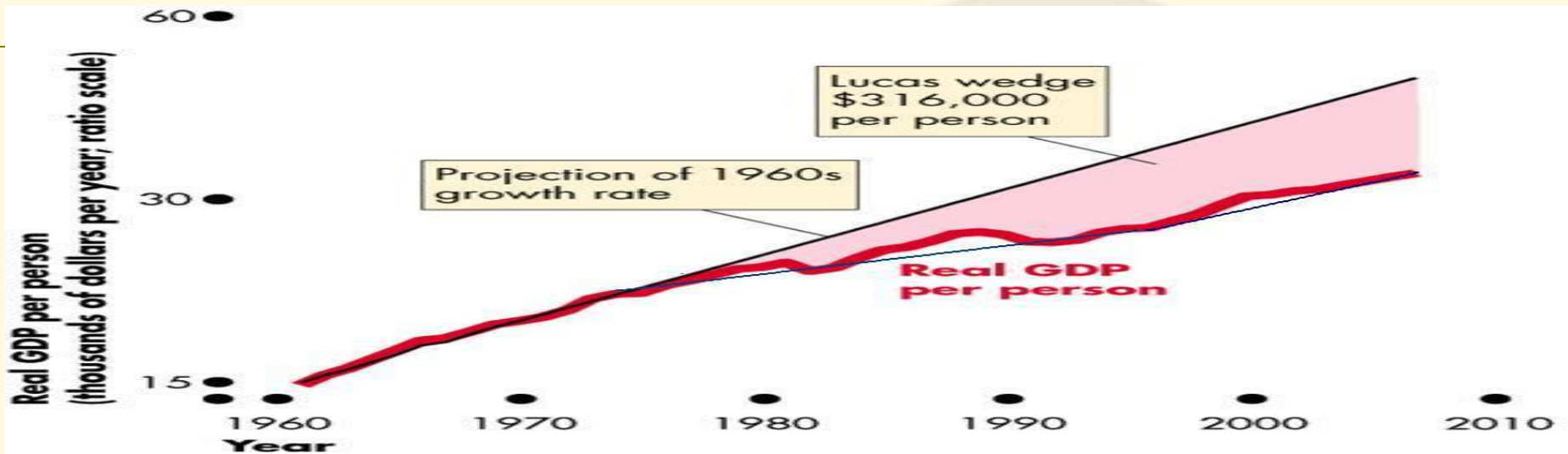
The choices that emerged in Canadian Program Review



.....Canada

- The reform measures included:
 - reducing the number of Cabinet Ministries from 35 to 23,
 - eliminating 73 government agencies/boards,
 - decentralizing, restructuring or privatizing 47 other agencies,
 - cutting/transferring civil service jobs by 18% (45,000 people)
 - ending agricultural and transportation subsidies, and
 - reducing state subsidization of the real sector by 60 percent.
- A further and subsequent reform effort was initiated in 1997 on civil service reform to train, attract and retain skilled public servants.
- Subsequently, increasing emphasis was placed on:
 - developing performance-based fiscal budgets for agencies
 - incentives based on measurable and “contracted” performance
 - greater management flexibility
 - e-government, under which licenses, business registrations and similar tasks were done on-line.
- In two years, the fiscal budget was in surplus and consumer surveys showed that service delivery had improved.

Canada's Government Budgets



International Experience: Poland

- **Decentralization** was the key feature of the Polish PA reform of 1999.
- The major problems that triggered Polish PA reform were the following:
 - highly **centralized decision-making** with direct central government participation in decisions on a variety of local level issues,
 - the **central administration was also involved in the control** of “decentralized” local entities through a broad range of regulations,
 - a highly centralized system of **public finance** that envisaged financing of all budget-funded entities out of state budget;
 - **unclear delineation of responsibilities** between different levels of government; with conflicting priorities of state and local authorities;
 - low **public participation in the process of policy** formulation;
 - low **accountability** of public administration to the public;
 - huge **network of public administration bodies** that sometimes contradicted the principles of territorial differentiation;
 - **weak delivery of public services.**

.....Poland

- **The major public administration reform of 1999 made the central ministries responsible only for policy and strategy, with decentralization of service delivery to territorial self-governments** (the Act on Branches of the Government Administration of 1999).
- Functional and operational reviews eliminated complicated administrative regulations and procedures at various levels of government.
- They also reformed the system of **public finances**, with local governments receiving own-source revenues, shared taxes and general transfers from the center.
- The monolithic structure of the state administration was replaced by a decentralized model that **clearly separated** local/regional affairs from national affairs of “countrywide character”.
- The main principle of decentralization was that the resolution of all social problems should be done by **committees of local communities** based on territorial, cultural and economic ties.
- The central government intervened in situations when the problem could not be solved in the community, due to the problem of scale or problem of coordination with other communities.

.....Poland

- In the 1990's, about 100,000 central staff were fully transferred to local governments. Nevertheless, the **central government still retained** some authority over these staff, including appointment rules.
- The outcome of decentralization was a public administration that looks like a classical pyramid: **the basic tiers** are in charge of everyday matters focusing their activity on the delivery of basic social services to the public; and **the top tiers** of administration were concentrated on policy, strategic, and general problems of the country's development.
- **Local affairs with their local budgets based on independent revenue generation** were entrusted to 2,500 **municipalities** (“Gminas”), the basic and the most important level of public administration.
- It was here that the most important collective needs of local communities were met: they are responsible for local transportation, social welfare, water and sewerage, public health, nurseries, sports, primary education, libraries and culture, housing, parks, fire protection, etc.

.....Poland

- 370 **Provincial governments** (Powiats) are responsible for secondary education and other services that extend beyond the municipality borders.
- 16 **Regions** (Wojewodztwa) are in charge of Regional affairs. They are the largest administrative unit at the sub-national level. The Executive bodies of the Regions are responsible for university education, major hospitals, regional roads, maintaining public order and environmental protection within their jurisdiction.
- The Provinces and Regions have independent budgets & revenue sources.
- Administrative units at all levels are run by democratically elected officials & councils which established management boards with executive powers.
- The **Central government** retained responsibilities to decide on national policy and strategic matters.
- Decentralization has moved ahead, **but checks have been put in place:** fiscal budget decentralization is considerable, but program standards place restrictions on how the money is spent; staff have been devolved, but the interests of unions have been preserved through appointment rules. **Some of these restrictions have created political tensions between govt. levels.**

International Experience: New Zealand

- **Performance Evaluation** was a key aspect of the New Zealand PA Reform.
- Before the mid-1980's New Zealand was overregulated and growing slowly. It had large fiscal budget deficits and declining exports.
- In 1985, a "**long-overdue**" reform of public administration was done to:
 - support a free-market economy and reduce government regulations,
 - greatly reduce the "core" government sector, and
 - improve government's financing, effectiveness, efficiency, accountability, transparency and consistency.
- The reform envisaged the following:
 - (i) Reaching a **consensus** on a redefined role of the State: the State should do and fund only those activities relating to the exercise of its constitutional powers and those "public good" activities where it has a comparative advantage without duplicating/competing with the private sector;
 - (ii) Clear specification of each agency's function based on clearly defined "**programs/projects**" whose performance could be "measured" (every State agency should have unambiguous and transparent purposes, while significant functional conflicts should be exposed and eliminated);

.....New Zealand

- (iii) Promote more effective management and allocation of public resources, delineating the “**Core State**” (central executive bodies) and the “**Non-core State**” (based on new independent agencies, semi-autonomous entities and regional authorities)
- The restructuring of core ministries had the objective of forming departments whose “**programs**” **could be quantitatively measured** and its performance assessed and rewarded on the bases of agreed upon Performance Agreements.
 - Compensation to civil service staff was based on actual results as measured by the Performance Agreements.
 - To facilitate performance measure, within each core ministry, different departments were created to separate the functions of:
 - (1) Making and Implementing **Policies** (e.g., fiscal policies, monetary policies, analysis of required reforms),
 - (2) **Service Delivery** (e.g., security, defense, diplomatic services, infrastructure, social services, legal, etc.),
 - (3) **Regulatory Functions** (e.g., regulation of utility prices, procurement, auditing, personnel).

.....New Zealand

- In defining and grouping the departments, elements of **competition** were introduced (e.g., not one but two competing departments providing similar services, such as sanitary meat inspections).
- Operational managers gained more **flexibility to manage**, and to exercise strong decentralized powers
- **Employment** in the central government was reduced from 88,000 to 37,000 over five years (by transferring and retiring staff).
- The Civil Service was reformed with the creation of a **Senior Executive Service**, whose members could be transferred around ministries, departments and entities, and trained for senior management positions.
- Legislations was passed to abolish **civil servant status** for public employees, who became covered by the general labor law.
- About 2,700 state-owned companies were either transformed into commercially driven corporations or were privatized.

International Experience: Ireland

- The key goals were to **improve the investment climate and service delivery to accelerate growth**. Fiscal budget issues were not major goals.
- After two failing public administration reforms, a third reform was introduced in 1994. Six initiatives formed the core of the 1994 reform:
 - (i) simplifying administrative processes and procedures by eliminating a large number of regulations and licenses;
 - (ii) improving quality of public services by giving more **discretion and freedom to agencies** to respond to public needs based on tradition while reducing the number of written rules;
 - (iii) introducing greater **accountability** by improving information, communications and transparency;
 - (iv) introducing new approaches to **human resource management** by developing better hiring, promotion and firing practices;
 - (v) introducing more effective **financial management** by setting clear and transparent accountability rules; and
 - (vi) making better use of **information technology** to meet business and organizational needs.

.....Ireland

- Also, a new program, “**Reducing Red Tape**” was introduced to further eliminating paper work and increase efficiency, transparency and accountability, based on internet e-government initiatives.
- To oversee the reform process, the government appointed **nine top-level civil servants** from different departments to serve on the **Steering Group**.
- This high-level group was itself supported by **specialized working groups** of senior officials and experts, from both the public and private sectors, focusing on particular actions or issues.
- A strong judicial review mechanism promoted reforms and quality of **public governance**
- The program has been quite successful in improving the business climate in Ireland and delivering government services: Ireland was able to attract significant amounts of foreign direct investments.
- In less than 2 decades Ireland went from being one of the poorest in Europe to having the second highest income per capita in Europe.
- However, excessive and inappropriate lending by local private commercial banks and inadequate bank supervision led to the 2008-2009 financial crisis.

International Experience: Brazil

- **Decentralization and participatory mechanisms** were key features.
- In the mid-1980's Brazil was facing:
 - Excessive **centralization** of the federal government
 - **Arbitrary and non democratic** formulation and implementation of public policies and programs by dictatorial governments
 - Exclusion of important segments of the Brazilian population from **access to public services** and social policies
 - **Unresponsiveness of public policies** and agencies to people's needs
 - Lack of **social control, evaluation and accountability**.
- Two factors motivated the government to change in the late 1980's:
 - after 20 years of dictatorship, the **democratization process** which led to decentralization to sub-national governments, particularly municipalities under the Constitution of 1988 - the new role of municipalities required new institutions and practices; and
 - the 1980's **fiscal financial crises** which affected the capacity of the federal government to meet the country's demand for social services.

.... Brazil

- The central government changed its role from provider of civil employment to facilitator of local and private sector development.
- These factors led to more **participatory mechanisms** to set public policy and to seek more efficient ways to deliver services.
- Starting on 1995, Brazil undertook:
 - a further civil service reform to **downsize staffing**, enhance skills, and attract more qualified staff,
 - **functional reviews** to define more clearly government functions and separate functions among different agencies,
 - reductions in the **government's role** as provider of services,
 - Improvements in operational efficiency through **more managerial flexibility**, use of performance agreements and use of IT,
 - A **reformed budget management**.

.....Brazil

- This process was **managed centrally by a single new entity**: the Ministry of Federal Administration and State Reform. This ministry had extensive authority but was supported by an inter-ministerial task force.
- It also made extensive use of **change management approaches**, including coalition building and networking and other consultative mechanisms including academic networks (Brazil's **CONFAZ** – Council of Secretaries of Public Administration of the Federated States, is one of the most successful examples on this consultative mechanism).
- These consultative mechanisms were useful for **cross-fertilization and to spread best practices among states and municipalities**.
- As a result, increasingly sub-national governments **set the pace of PA reforms** with modernizations occurring bottoms-up in areas such as creation of autonomous agencies for service delivery, one-stop shops for all paperwork (IDs, birth certificates, drivers licenses, tax documents, etc), introduction of performance-based systems, introduction of e-government, etc.

International Experience: Moldova

Moldova's reform shows the problems from lack of consultations.

Moldova's Public Administration faced the following problems:

- A politicized, bureaucratic and centralized civil service;
 - Excessive government staffing levels;
 - Lack of focus on core functions;
 - Low salaries;
 - Low motivation and productivity among personnel;
 - A failure to attract the best personnel;
 - High levels of corruption;
 - Limited accountability;
 - Failure to separate functions – e.g. policy and service delivery;
- **In 2006, the President announced the need to reform the administration and cut civil service by 70%, -- but many doubted the Government's seriousness.**

.....Moldova

Coverage of reform and resources

- In less than 6 months, the government did complete horizontal and vertical reviews of 160 central public administrative agencies and 63 de-concentrated agencies and public enterprises.
- The process was managed by a Project Director, a Team Leader and 7 international experts covering 5 ‘Sectors’ which were further divided into 29 ‘Blocks’:
 1. Justice, Home Affairs & Security;
 2. Agriculture & Environment
 3. Health, Education & Culture;
 4. Economic Development (plus miscellaneous);
 5. Governance (Centre of Government) & Public Finance
- It employed 25 local consultants in teams organized as above;
- Needed a pool of 25 translators and interpreters.

.....Moldova

Key issues and risks

- The methodology endorsed by government was internationally well-proven and adapted to the Moldovan context.
- But strong **central control and micro-management** of the process led to **limited participation and engagement** of other stakeholders.
- Therefore, the process was unable to gain commitment and ‘buy-in’ from key Ministers and stakeholders, who boycotted it;
- It was also done too fast, with unreasonable time pressures that did not allow for consultations;
- Ministries felt threatened (fearing loss of power), and many initiated their own “internal” reviews to delay the process;
- There was a lot of fear of downsizing implications (retrenchment);
- There were significant new reporting and performance issues;

.....Moldova

- Feedback workshops are essential but they just paid ‘lip service’ to two-way consultations;
- Political announcements before or during process (e.g. need to reduce civil service by 70%) led to scepticism;
- There was not a good change management plan with the Government to manage and mitigate inevitable resistance;
- Government agencies did not ‘own’ the implementation plan after the initial agreement on recommendations.
- **In early 2010, the Government re-started the process of PA reform with greater participation of stakeholders, greater consultations and greater participation of all agencies.**
- By 2012 the reform program was able to achieve its main goals.
- A June 2014 Completion Report by the World Bank indicated that the reform had finally succeeded.

International Experience: Russia

- **Russian reforms had problems due to lack of commitment & participation.**
- Russia's public administration has been more appropriate for a command rather than **market economy**. The number of civil servants was not large, but decision-making/functions were out-of-line with a market economy.
- In 2000, Russia initiated a comprehensive and complex PA reform that included institutional reform, civil service reform and budget reform.
- The initial efforts were concentrated on **fiscal budget reform**, with little progress in institutional and civil service reform.
- In 2003-2004, Russia undertook a major program of **Functional Reviews on a very centralized and non-participatory manner**:
 - The Government undertook functional reviews of 5,000 functions of federal executive bodies, of which 800 were found redundant, 350 were duplicative, and for 500 function major efficiency gains were possible
 - Based on these FRs, a new government structure was designed and approved by the President in 2004, under which government agencies were grouped into three categories: agencies responsible for policy development/legal regulation, those responsible for service provision, and those responsible for control and supervision functions.

.... Russia

- In 2004-05, the implementation plan called for the centralized issuance of needed legal and regulatory acts, establishing maximum staffing and payrolls per agency, and draft regulations
- Functional Reviews were also started in five regional governments using a similar methodology to the central FRs.
- **But very few these reforms have been actually implemented.**
- Under a recent Administrative Reform Concept 2007-2008, the government wanted to carry out implementation and give emphasis to performance management, service delivery standards, and transparency.
- The same concept paper envisages that budget allocations will reflect outcomes measured by performance indicators and service delivery.
- To implement the program, the government established an Interdepartmental Commission and envisages the participation of federal ministries and the office of the President.
- So far, with little political will, little results are evident in the field.
- So far, the PA reform has just produced tons of paper with no improvements.

.... Russia

- A recent World Bank report list the failures to the following factors:
 - Lack of leadership with the administration preoccupied with other matters,
 - Lack of a sense of urgency,
 - lack of clear goals and benchmarks for progress,
 - Lack of involvement of the participatory agencies.
- For the future, it was suggested that the above issues be addressed, in particular with greater involvement of civil society and local authorities.
- Furthermore, following the example of Brazil, the Reform Commission should make greater used of change management approaches, including networking and coalition building (to identify and nurture change champions), interactive training, knowledge exchange meetings, etc.

Precondition for Public Administration Reform Success

- The government should seek broad consensus with all stakeholders on the need for PA reforms.
- There must be strong and clear leadership, political commitment and “ownership” of the reforms by all stakeholders and agencies.
- A powerful high-level PA reform committee should be established.
- There must be a sense of “urgency” and strong incentives for implementation (such as the need to reduce fiscal deficits in Canada).
- “Realistic” goals of the reform must be “quantified” at the beginning.
- The reforms should be based on an agreed upon PA reform program, with well-defined outcomes and time schedules.
- There should be a comprehensive program to build civil servant support, interest, capacity and training on the approach and techniques for PA reform.
- The reform should be implemented internally or with internal efforts.
- Popular “pressure” for reform also helps to provide reform impetus.

.....Reform Preconditions

- There must be broad engagement of civil society in the design and implementation of the reforms, which means that there must be:
 - close grassroots consultations and feedback from all groups of society.
 - information disclosure and transparency (to the press, businesses, unions, students, civil service) and greater accountability.
- There must also be broad acceptance that a more comprehensive and drastic reform is less painful than a gradual reform: attempts to gradually strengthen individual institutions may fail because of other factors such as low civil pay scales that go beyond a given sector.
- Nevertheless, if there is no broad consensus and leadership for a comprehensive and drastic PA reform, a second best option is to reform gradually taking any windows-of-opportunity as they emerge: i.e., concentrate on those agencies/programs where there is "urgency" for reforms, and leadership to carry it out.

Lessons from International Reform Programs

An international proven methodology for Public Administration (PA) reform would involve the following steps:

1. Form a high-level PA Committee to develop and implement the reform plan
2. Agree on the Government's Core functions
3. Carry out Horizontal Functional Reviews across agencies
4. Carry out Vertical Functional Reviews and decentralization in each agency
5. Carry out Operational Reviews in each agency
6. Carry out Civil Service Reform

1. Form a High-Level PA Committee and Develop of Reform Plan

- At the outset, there is a need to establish a high-level PA Committee with broad high level inter-ministerial staff and strong political support.
- The PA Committee should be supported by representatives of the public, including academia, NGOs, and private sector companies.
- This PA Committee will develop and implement a timely program/plan of public administration reform, in which the sequence of steps are clearly spelled out and placed in a realistic time-bound frame..

State Role & Horizontal Functional Review

2. Agree on the Core Role of Government

- The next step should be to secure a national agreement about the proper role of the government, preferably approved by the Parliament
- There should be a strong mandate that the government's main job is to support private sector activities, and not to compete with it.
- The government role should be limited to non-commercial activities, to the provision of necessary “public” goods (goods not undertaken by the private sector), and to the provision of necessary regulatory services.
- All commercial revenue-generating functions should be privatized or seconded under public-private partnerships.

3. Horizontal Functional Review Across Agencies

- Horizontal functional reviews should be undertaken to prepare an “inventory of core” government functions/programs across all agencies.
- One aim is to eliminate overlapping functions and responsibilities across ministries and agencies, making them leaner, more efficient and more accountable for well-defined functions.

Horizontal Functional Review

- This review should avoid ambiguity and provide for a clear allocation of mandates, responsibilities, and accountabilities.
- It should follow the principle that one unit is responsible for decision-making, execution and accountable for a well-defined government role.
- The final structure should be based on programs, not “departments”
- The review work must be carried out in partnership. It should be done by:
 - a strong central group to manage, coordinate and recommend changes,
 - each government agency to make its self-analysis of its functions based on a clear guidance prepared centrally and with the participation of the staff of the agencies.
 - The reviews should not be delegated to outside consultants. External technical assistance could be useful only to identify and benchmark with best international practices.
 - Outside interested groups of the society to participate continuously in the process to provide feedback.

Horizontal & Vertical Functional Review

4. Vertical Functional Review of Each Agency

- A “vertical” functional review should be undertaken for each reformed agency, starting with the main ministries, to re-define roles, eliminate unnecessary functions, decentralize relevant functions and budgets to local authorities, and privatize or outsource some of them.
- The functions for each agency should be separated into categories:
 1. National strategy and policy formulation and analytical reviews, which could remain as “core” central government functions.
 2. Regulatory and control activities which could also remain as “core” central government functions.
 3. The delivery of public services which could be decentralized to local governments.
 4. Revenue-generating activities in competitive markets which could be privatized or executed under public-private partnerships.
 5. Revenue-generating activities in non-competitive markets, that if retained by government, could be moved into corporation form.

Vertical Functional Review

- In this vertical review, it is necessary to ensure that key players in the institution are “engaged” in the decision-making process and become committed to their implementation.
- The vertical functional reviews should be based on clear objectives with budget/resource ceilings for the agencies.
- Ideally, budget/resource ceilings for each agency should be set on the basis of Public Expenditure reviews focused on **programs** not entities.
- The Vertical Functional Reviews should include a medium term Restructuring Plan of Action - with clear benchmarks for the achievement of quantifiable performance goals for the programs, with allocation of responsibilities and timing.
- The Restructuring Plan should contain actions to (i) improve policy formulation and implementation; (ii) improve the delivery of services; and (iii) eliminate unnecessary regulations and regulatory agencies.

Vertical Functional Review

- The Restructuring plan should also include a "Quick Wins" program.
- The Functional Reviews should also include the preparation of an "Inventory" or "Central Depository" of (i) public strategies and policies, (ii) regulations and controls that are retained in the role of each agency, (iii) public services, and (iv) public goods.
- The Vertical Functional Reviews should include a precise estimation of budget resource requirements for "each" of the proposed functions of the re-defined agency, together with staffing tables, and Job Descriptions for key senior staff (this link between resources and functions will also be reflected in the budgets for future years).

Operational Review

5. Operational Review of Each Agency

- Once the functional reviews are been completed and new organizational set-ups established, **operational reviews** of all ministries and government agencies should follow to improve the unit's *modus operandi*.
- Operational Reviews should include the review of the **internal processes and procedures** by which (i) strategies and policies are formulated, decided upon and implemented (iii) regulations and controls are considered, reviewed, and implemented. And (ii) services are provided.
- In the absence of a market test, transparency and openness of information and public processes are the best ways to ensure accountability for performance.
- Therefore, the review should propose legislation and clear procedures to improve transparency of government information, making any non-national security information freely available to the public.

Operational Review

- Each agency should develop open and transparent processes to define agency outputs, performance, and costs and then to measure results.
- Results should be widely published and agency management should be held accountable through "open files" involving the publication and monitoring of such performance information.
- Poor performance should be meaningfully penalized. including dismissal.
- Use of other competition surrogates -- particularly "voice" (the active participation of clients, users and beneficiaries in agency's activities) and market contestability should be encouraged.
- Emphasis should also be given to enhanced accounting and auditing processes in the public sector through changes in laws and procedures.
- Improving information transparency and openness will also be an important weapon to combat corruption, which is a major cause of distortions in public sector behavior.

Operational Review

- The review should improve Government procurement procedures and control mechanisms.
- The review should include a large-scale simplification of licensing and regulatory procedures (through regulatory guillotine mechanism, for example) in order to eliminate many obsolete and unnecessary supervisory functions performed by government agencies.
- The process must promote strong client orientation: The functions/roles of the staff in close contact with the clients must receive special attention.
- In defining programs, greater competition in the provision of government services should be considered, for example, by permitting open enrollment in schools or health clinics; or by establishing more than one Government agency providing a service in competition among them.

Civil Service Reviews

6. Civil Service Reform

- A civil service reform should be implemented to ensure that the right people are recruited and trained and that they will operate under appropriate “incentive” and “control” systems.
- In most countries, progress has been made in creating enabling business environments for the private sector, that provides the "incentives" and "controls" systems for private businesses to operate efficiently.
- However, in many countries little progress has been made in creating a similar favorable “enabling” institutional environment for the public sector that would provide the "incentive" and "control" systems to influence positively the behavior of government officials to deliver superior government services.
- The civil service reform should include the development of these "incentives" and "control mechanisms" to encourage public sector employees to operate effectively with minimum supervision.

Civil Service Reviews

- An important “incentives” is to link compensations to the achievement of clear performance targets, under performance evaluation procedures.
- The “control systems” would be facilitated by full disclosure of information and transparency about the agency’s work.
- The agency should also develop clear certification procedures for personnel hiring, payment and advancement linked to good performance and dismissal rules for civil servants.
- A strong anti-corruption program for the agency should be prepared to eliminate corruption, based on preventive as well as coercive measures.
- The merits of a Senior Executive Corps, modeled after the US Government's SES or the New Zealand's Senior Executive Service, should be considered as a short term solution; under this approach in return for higher salaries, job security is given up.

Civil Service Reviews and Decentralization

- Non-monetary incentives should also be enhanced; in particular, the perceived stature and professionalism of Government employment should be strengthened by involving employees in setting objectives and work programs, by providing them with sufficient autonomy and accountability to produce the expected outcomes, participating in training programs.

7. Decentralization Support Measures

- **Decentralization** to local governments should take place during the vertical functional review process; but supportive measures are needed.
- **Decentralization should be a key factor in the reform program**
- Decentralization of key social services (health, education, housing, etc) should be a fundamental aspect of the reform as the proximity of authority to service delivery will improve accountability and transparency.

Decentralization

- In fact, decentralization will bring decision-makers into closer contact with the beneficiaries (improving information and shortening the political feedback loop) who can now exercise control over performance.
- Furthermore, when the services are managed closest to the users, they will be more inclined to pay for the services. This is the case for most basic services, such as water, sanitation, education, health, etc.
- However, decentralization is one of the institutional reforms that may have the highest potential for failure, principally through conflicts among levels of responsibility, authority, and financing.
- Therefore, decentralization may be ill-advised and fail, if it is not carried out in a comprehensive manner. To be successful, decentralization should include the following:
 - A precise and clear definition of the functions, authorities and responsibilities transferred to local levels.
 - A clear identification of the local entities at the lowest possible level that would received the delegated functions.

Decentralization

- The mechanisms to provide adequate financing, technical assistance, and management training to enable local agencies to assume effectively their new responsibilities.
- Local governments should also undertake functional and operational reviews to redefine functions, eliminate functional overlapping, and improve operational efficiency.
- Local governments should be made responsible for the decentralized staff, including their performance and evaluation, and should be able to reallocate them.
- Local governments should be able to manage its financial resources, including control of civil service wages and numbers.
- Decentralization will increase opportunities for local initiatives and reduce internal communication and decision-making costs.
- But inadequacies in revenues transfers or tax generation may create tensions as local authorities are still dependent on central funding.
- Decentralization of government services to the lowest levels will improved cost recovery with local councils setting utility tariffs.

Long Term Strategic Planning

Long term strategic Planning

- The government must also pay much more attention to long-term strategic policy making.
- For this, the government must strengthen its capacity to design and implement medium-term economic programs.
- In addition, the government must be committed to its long-term policy targets by reporting periodically on government's progress.
- This work will considerably boost transparency and accountability of the government.
- To do this auditing work, an independent agency should be created.
- This agency will (for example, the Office for Budget Responsibility (OBR) was formed in May 2010 in the United Kingdom to make an independent assessment of the public finances and the economy for each budget and pre-budget report).