Functional Reviews

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1. Functional Reviews in the Context of Public Sector Reform
1.1 Public sector reform in context

- Education
  - Health
  - Social assistance
  - Housing and utilities

- Performance management
  - Budget reform
  - Civil service
  - HRM Reform

- Competitiveness
  - Trade
  - Financial sector
  - Infrastructure

- Increase government effectiveness and performance

- Improve service delivery

- Increase demand for better services

- Increase human capital

- Strengthen investment climate

- Accelerate economic growth

- Increase demand for better services
1.2 Public Sector Reform: Components

- Public Sector Reforms can be grouped into three main components:
  - Performance management
  - Budget and financial management
  - Human resource management
- All components need to be supported by extensive capacity building
- Functional reviews fall under Performance Management: Increasing government effectiveness
- Road map or set of platforms required to allow for integration of components
1.3 Integrating and sequencing the components through the Platform Approach

- Road map concept: every journey is different
- Know where you are (capacity, systems, procedures, culture and norms)
- Know where you are trying to get to (vision, objectives, targets)
- Understand what types of interventions may be appropriate
- Break complex reform programs into smaller manageable chunks
- Focus on capacity and incentives and process of change management as well as on specific technical approaches
1.4 Sequencing through ‘Platforms’ (Steps on a Staircase)

Activities selected based on contribution to platform objective
1.5 Platforms/Steps in Russian PFM

Step 1
- Initiate production of data about objectives and results.
- Incentives to produce data.

Step 2
- Deepen basis for linking resources to performance.
- Strengthen framework and incentives for achieving results.

Step 3
- Improve systems for gathering performance data.
- Strengthen capacity and organisation for managing for results.

Step 4
- Integrate systems contributing to performance based resource management.
- Streamline budget implementation and empower managers.
1.6 Platform Approach to Public Sector Reform

- **Discipline:** Basic building blocks of Institutional framework
- **Formalisation:** Policy and system design
- **Consolidation/Effectiveness:** Policy and system implementation
- **Integration:** Integration of policies and systems
1.7 Public Sector Reform: Four Platforms

- 1. Improve discipline through strengthening basic building blocks of institutional framework
- 2. Secure formalisation through policy and system design
- 3. Increase effectiveness through policy and system implementation
- 4. Achieve joined-up government through integration of policies and systems
1.8 Public Sector Reform: Using the Platform Approach

- Allows Ministries and regions with different start points (capacity, systems, procedures) to all address a common medium-term set of reform objectives and desired outcomes…

…while taking account of concrete start point in each Ministry and region…

…allowing advanced high capacity Ministries and regions to press ahead with more complex platforms…

…and allowing all Ministries and regions to build on their own particular strengths and address their own comparative weaknesses

- Should provide more quickly greater examples of concrete reform approaches for consideration by and possible dissemination by other Ministries and regions

- Provides framework for accelerating the achievement of concrete outcomes from public sector reform programs

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1.9 Public Sector Reform: Four Platforms

<table>
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<th>Discipline</th>
<th>Formalisation</th>
<th>Consolidation</th>
<th>Integration</th>
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<tbody>
<tr>
<td>Inputs</td>
<td>Outputs</td>
<td>Outputs/targets</td>
<td>Outcomes</td>
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<tr>
<td>Provider driven</td>
<td>Internal accountability</td>
<td>External accountability</td>
<td>User driven</td>
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<tr>
<td>Company: Corporate recovery</td>
<td>Pursuing core market</td>
<td>Pursuing growth</td>
<td>Internationally competitive</td>
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2. Government, Program and Functional Reviews: Approaches and Outcomes
2.1 Government, Program and Functional Reviews

Whole of Government reviews:
- unit of analysis is the whole of government
- large-scale changes to the machinery of government

Program reviews:
- unit of analysis is a specific policy area
- are we doing the right thing?

Functional reviews:
- unit of analysis is a specific Ministry/agency
- are we doing the thing right (efficiency and effectiveness)?
2.2 Start point: Agree the review objectives and principles

- Fiscal: government expenditure as % of GDP; headcount reductions; savings targets
- Efficiency and effectiveness: increase ability to meet key government work program targets
- Local external demand: meet demands for improved service delivery
- External requirements: EU or WTO accession
- Ideology: minimise role of state
- Subsidiarity
2.3 Characteristics

- Every review is different
- Design of each review a political and technical process
- Different stakeholders can be expected to react in different ways
- Lots of experience of such reviews
- No generic “one size fits all” methodology
- Toolkit of approaches which can be selected, adapted and tailored for a specific exercise
2.1.1 Government reviews: Grouping the functions – by type of function

- Policy analysis and development
- Performance monitoring and evaluation
- Direct service delivery to private sector
- Direct service delivery to citizens
- Support function to service delivery
- Coordination and liaison
- Regulatory
2.1.2 Grouping the functions – by client

- Politicians (Cabinet of Ministers)
  - Policy analysis and development
  - Performance monitoring and evaluation

- Private sector:
  - Direct service delivery to private sector

- Citizens and service users:
  - Direct service delivery to citizens

- All (policing the actors):
  - Regulatory

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**2.1.3 Agree the operating environment for functions**

<table>
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<tr>
<th>Public sector ownership and risk</th>
<th>Controlled by central government</th>
<th>Private sector ownership and risk</th>
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<tbody>
<tr>
<td>1. Inherently governmental environment</td>
<td>2. Government controlled but private sector delivered</td>
<td>3. Devolved, decentralized environment</td>
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<td>4. Private and not for profit environment</td>
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Independent from central government
2.1.4 Identify characteristics of each function

- What type of function?
- Who is the client for the function?
- What quadrant of the operating environment?
- What type of body within operating environment quadrant?
2.1.5 Agree the structure for the “inherently governmental” functions

- Ministry: client is Cabinet of Ministers
- Service: client is Cabinet of Ministers
- Executing agency: clients are private sector and citizens
- State owned enterprise or trading body: clients are private sector and citizens
- Regulatory body: clients are all parties
2.1.6 Conclusions: whole of Government reviews

- Risks: Involve radical changes...
  - ...affecting large numbers of officials, clients, service users
- Extremely complex and very heavy management load
- Tactics:
  - Use extensive consultations and communications and maximize staff involvement
  - Demonstrate strong and consistent senior political commitment
  - Support with change management; training
  - Underpin with pay incentives; new procedures, systems and performance management
2.2.1 Program and functional reviews – comparative assessment of 25 reviews

- Brazil - inventory of government programs
- Canadian reviews
  - Federal - program review (1994) and Alternative Service Delivery reviews
  - Provinces of Alberta, Manitoba, New Brunswick, Ontario and Quebec
- Kazakhstan - functional review (1998)
- Macedonia - wage bill reduction review (2001)
- New Zealand - reviews of the State Sector
- Thailand - functional reviews (2000)
- UK reviews
  - Prior Options reviews, Better Quality Services and Best Value Reviews, Market Testing, Fundamental Expenditure Reviews
- 'Bottom Up' review of the US Department of Defense

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2.2.2 Program Reviews

- Analyses policy areas (programs)
- Comprehensive and centrally led review
- Centrally determined criteria for reviewing programs: top down targets and savings
- Encourages flexibility to propose solutions to reach those targets
- Allows for bottom up identification of the appropriate response
2.2.3 The criteria for testing programs in Canada

- Public Interest
- Role of Government
- Jurisdictional Alignment
- External Partnership
- Business Principles
- Affordability
2.2.4 The choices that emerged in Canadian Program Review
2.2.5 Impact of Program Review in Canada

- Budget savings of Cdn$3.9 billion out of a total budget of Cdn$52 billion in FY95/96…
  - …rising to savings of Cdn $7.2 billion in FY 96/97
- Major program of Special Operating Agencies initiated
- Many services contracted out to the private and not for profit sectors
2.2.6 Preconditions for effective Program Review

- Create external pressure and sense of urgency
- Make the public aware of the dangers of doing nothing and of the benefits of the changes
- Base on simple centrally determined overall principles, rules and technical design
- Identify champions and motivate Ministry teams
- Go for visibility and sell any early successes
2.3.1 Functional reviews

- Analysis of specific Ministry or agency
- Methodology set by the center
- Reviews normally undertaken by multi-agency teams
- Emphasis usually on applying an affordability criterion, identifying possible savings, eliminating duplication
- Focus can also be on process re-engineering to secure improved service delivery
- In transition economies, focus often was on changing functions and structures to meet needs of market economy
2.3.2 Functional reviews allocate service delivery across the four quadrants

1. Continued provision by central government
2. Government controlled but private sector delivered
3. Public sector - but not central government
4. Private and not for profit sectors
2.3.3 Quadrant 1: continued provision by central government

- when there is no realistic market (non-contestable, non-specifiable services)
- when service failure would be critical
- when even-handed regulation required
- >defence, foreign relations, tax and revenue, regulatory
2.3.4 Quadrant 2: government controlled but private sector delivered

- when the private sector is able to provide competition in service delivery
- when there is an existing market that can be improved by regulation
- when government must remain accountable for the service
- when there is no risk of monopoly
- >most contentious area politically: can include elements of core public services such as education, health, prisons
2.3.5 Quadrant 3: public sector - but not central government

- when the principle of subsidiarity applies
- when partnerships with other levels of government can lead to cost savings or service quality improvement
- can include all or parts of education, health care, social safety nets, some natural resource management
2.3.6 Quadrant 4: private and not for profit sectors

- when there is a stable policy environment
- when there is a prospect of raising revenue from fees and charges
- when the services are specifiable and contestable
- when there is a market for the services - or a market can be created
- when government can tolerate the risk of closure
- commercial activities, state owned enterprises
2.3.7 Quadrant 1 structure options

- **Ministries**
  - manage sensitive policy areas
  - no realistic market; politicians are the primary clients
  - need margin of safety against service failure
  - need capacity to respond to major policy changes

- **Services**
  - routine but critically important administrations (tax, customs)

- **Agencies**
  - discrete services or functions, need for political control; no realistic market

- **Statutory commissions**
  - Independent regulators

- **Trading bodies**
  - stable policy environment
  - raise revenue from fees and charges
2.3.8 The Functional Review process for each organization

1. Establish Task Force
2. Agree ground rules and timescales
3. Agree methodology
4. Confirm priorities for Ministry/agency to be reviewed
5. Which functions should still be provided?
6. How should the functions be provided and by whom?
7. Propose structure for Ministry/agency
8. Hold workshop and disseminate implementation plan
2.3.9 Which functions should still be provided

**Disaggregate by type of function:**
- Policy analysis and development
- Performance monitoring and evaluation
- Direct service delivery to private sector
- Direct service delivery to citizens
- Support functions to service delivery
- Coordination and liaison
- Regulatory

**Test against key principles/objectives for the review program:**
- Public safety
- Strong demand
- Supports other key Government work program priorities
- Constitution
- Affordable

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2.3.10 Preconditions for an effective functional review program

• Centrally determined review objectives and review criteria
• Core central agency able to provide assessment of review quality
• Communications and consultation and incentives to bind in stakeholders to degree possible
• Political will to implement findings even when Ministry opposition
• Preparedness to secure required legislative amendments
• Change management critical
3 Functional Review in Moldova (2006/7)
3.1 Objectives for Functional Reviews in Moldova

- Align roles and responsibilities for policy development and implementation
- Eliminate overlaps - better consolidation of functions around core sector policies
- Improve decision making processes for better achievement of policy goals
- Identify functions for abolition
- Design proper delegation (subsidiarity) and accountability mechanisms
- Assess staffing needs and capacities
- Optimize institutional structures and assessing budget implications
- Review decision making process at Centre of Government
3.2 Country PAR Context

A politicized, bureaucratic and centralized civil service
Excessive staffing levels
Low salaries
Low motivation and productivity amongst personnel
A failure to attract the best personnel
High levels of corruption
Limited accountability
Failure to separate functions – e.g. policy and service delivery
Presidential pronouncement of need to cut civil service by 70%
   but doubts about Government’s seriousness
3.3 Methodology - Overview

Categorisation

New Functions
Existing Functions

Policy
Co-ordination monitoring & supervision
Abolition

Regulation
Service Delivery
Support

Treatment of function

No change
Modification rationalisation decentralisation privatisation

Creation of structures

Type of entity
3.4 Resources

Complete horizontal and vertical review of 160 Central Public Admin Institutions, 63 De-concentrated Agencies or Public enterprises, done in less than 6 months!

Project Director, Team Leader and 7 international experts covering 5 ‘Sectors’ which were further divided into 29 ‘Blocks’:

- Justice, Home Affairs & Security;
- Agriculture & Environment
- Health, Education & Culture;
- Economic Development (actually miscellaneous);
- Governance (Centre of Government) & Public Finance

25 Local consultants in teams as above
Pool of 25 translators and interpreters
3.5 Key issues

- Well proven methodology endorsed by GoRM and adapted to Moldovan context
- Need to manage expectations – insufficient absorptive capacity for scope and scale of emerging recommendations
- Need to gain ‘buy-in’ from key Ministers and stakeholders
- Difficult to persuade GoRM to phase change management
- Ministries felt threatened (loss of power), and many had ongoing internal reviews taking place
- Fear of implications for downsizing (retrenchment)
- Significant new reporting and performance issues
- Strong central control (micromanagement) of process led to limited stakeholder engagement and unreasonable time pressure

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3.6 Findings

Policy making is in general delegated inappropriately to subordinate institutions.

Regulatory or inspection functions frequently carried out by same body as service delivery functions.

Over 700 recommendations for transfer, merging, abolition of functions.

Need for fundamental redesign of Centre of Government processes and structures for policy making and decision making.
3.7 Lessons from process

Allow sufficient time for a large scale exercise like this

Communication and consultation are vital: GoRM did not take this seriously enough and stakeholders felt marginalised and not real participants in the analysis and recommendations

Feedback workshops are essential and must not just pay ‘lip service’ to 2-way consultation

Discourage political announcements before or during process (e.g. need to reduce civil service by 70%)

Develop change management plan with Government to manage and mitigate inevitable resistance

Government must ‘own’ implementation plan after agreement on recommendations
4 Functional Review in Russia (2003/4)
4.1 Objectives of the reform (security services)

- Build a strong state
- Strengthen top-down control
- Strengthen internal discipline
- Increase ability to implement structural and social reforms effectively…
- …in order to generate continuing public support for the regime
4.2 Objectives of the reform (technocrats)

• Increase effectiveness through eliminating duplicating structures
• Reduce opportunities for corruption through eliminating conflicts of interest
• Strengthen internal accountability and make Ministers play the key role
• Increase transparency and external accountability
• Stimulate system-wide focus on performance and delivery
4.3 March 2004 government restructuring

- Number of different government bodies was reduced from 6 to 4
- Number of ministries was decreased from 23 to 14
- Number of government bodies increased from 54 to 68
- Number of Deputy Prime Ministers reduced from 6 to 1
- Size of Cabinet of Ministers reduced from 31 to 18
- Two tier internal hierarchy replaced flat structure: Services and Agencies were placed in an accountability framework with a specific Ministry
4.4 New structure based on Government-wide functional analysis

• Structure built on five groups of functions:
  – Adoption of legal/normative acts
  – Control and supervision
  – Application/implementaiton
  – Management of state property
  – Delivery of services
4.5 Allocating functions to different types of Government bodies

Ministries:
  Adoption of legal/normative acts

Services:
  Control and supervision

Agencies:
  Application/implementation
  Management of state property
  Service delivery
4.6 Assessment of results of restructuring

• Review and subsequent restructuring was a largely political process
• Radical approach was adopted: extremely complex and difficult to implement
• Restructuring was prepared by a small team with a strong leader with a clear view of further complex reforms required to create conditions for new structure to operate effectively
• No consensus was developed within the system
• Entrenched corruption with respect to senior appointments was not challenged
4.7 Assessment of results of restructuring

- Strong leader was moved to a different posting
- Detailed reforms to create accountability structure within which Services and Agencies would work to a Ministry were not developed
- Many Services and Agencies lobbied successfully to be put back in a direct accountability relationship with Prime Minister
- Required second stage functional reviews of all Ministries, Services and Agencies were not carried out: underpinning logic with respect to type of functions to be undertaken by each body was heavily diluted
- Restructuring caused some chaos and paralysis and led to overall lessening of effectiveness
5 Functional Review in context
5.1 Functional review in context

- Securing real outcomes from public sector reform requires a sustained effort over a 5 to 15 year time period; and thereafter remains iterative.
- Use capacity building strategically: focus on strengthening core central agencies (Government Secretariat, Ministry of Finance) in order to strengthen internal demands for more effective performance and service delivery.
- Build out from existing processes recognized as being of critical importance to public sector managers (budget, resource allocation).
- Use development and approval of small number of core strategies to help build consensus across government.
5.2 Functional review in context

• Build discipline and formalization and reduce discretion through progression from basic core manual MIS; to number of separate core systems; then to integrated systems

• Create preconditions for effective external accountability and for enabling accelerated external demand for more effective performance and service delivery
5.3 Approaches for accelerating achievement of outcomes from public sector reform

- Invest in upfront reform design
- Sequence and prioritise reforms
- Create incentives inside the system
- Strengthen internal accountability
- Strengthen external demand
- Strengthen external accountability
- Manage the process as well as the reform substance
- Monitor reforms relentlessly
1. Invest in upfront reform design

- Understand key problems with investment climate and business environment from perspective of local, national and international private sector
- Understand key problems with service delivery from perspective of citizens and service users
- Understand key problems from perspective of public officials
2. Sequence and prioritize reforms

- Be opportunistic
- Focus on early wins to build momentum
- Group reforms into self-reinforcing packages
- Start from strengths and then roll out
- Prioritise key problems in interactions with private sector and with citizens (using external not internal perspective)
- Group and integrate regulatory regimes and services delivered from perspective of private sector and service users (one stop shops)
- Challenge producer assumptions and rebuild regimes and services to fit user needs through functional reviews
- Provide for participation of service recipients in reform design
3. Create incentives inside the system

- Identify champions in key reform areas
- Undertake targeted pay reform (middle management)
- Provide incentives for reform participation:
  - additional funding
  - access to expert support
  - access to new IT systems
4. Strengthen internal accountability

- Begin with reforms of key bodies with power to demand better performance of all other Ministries/departments: Government Secretariat; Ministry of Finance; HRM Agency
- Make performance management system central to the whole reform process
- Strengthen internal checks and balances: management services; internal audit; supreme audit institution
- Strengthen internal monitoring and evaluation and reporting
5. Strengthen external demand

• Increase ability of external stakeholders to monitor, influence and demand reforms and better performance:
  – transparency
  – Freedom of Information
  – participation of external stakeholders in reform reviews and development of new approaches and monitoring of outcomes
6. Strengthen external accountability

- Add detail to the basic performance management system: build towards:
  - meaningful reporting to and control by legislatures
  - meaningful transparency and reporting on targets, goals and actual results to external stakeholders together with consultations on next period’s priorities, targets and goals
  - internal and regional benchmarking and comparative performance
  - stimulating internal competition for improvements in service delivery
7. Manage the process as well as the reform substance

- Create networks with a stake in reform success (reform champions)
- Use formal change management approaches
- Use widespread internal and external consultation and communications to stimulate awareness, tackle internal opposition, and generate increased external expectations and demand for change/better performance and services
- Invest in training and development
- Use new systems and procedures to reinforce culture changes required
8. Monitor reforms relentlessly

- Local success stories are most powerful
- Identify and disseminate concrete practices and approaches (including between levels of government as well as horizontally)
- Keep medium-term outcomes always in mind and track leading indicators and adjust reforms as required to remain on track
- Public sector reform everywhere a medium-term and iterative process; and there will always be unintended outcomes as well as planned outcomes: seize opportunities and don’t lose time