

**Increasing Government Effectiveness:
Approaches to Administrative Reform in the Russian
Federation**

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**May 2005
Moscow
World Bank**

Increasing Government Effectiveness:
Approaches to Administrative Reform in the Russian Federation

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WEBSITES ON GOVERNMENT EFFECTIVENESS

The following websites were drawn from the general government sites for Australia, Canada, Ontario, New Zealand and the United Kingdom and were current as of October 2004. The following web addresses provide access to all of the organizations in each government. Also included are the home pages of the government organizations where most of the individual sites are located. Many of these documents are in pdf format and will require a pdf reader such as Acrobat.

A-Z Sites

Country	Website
Australia	http://www.fed.gov.au/KSP?phase=68cd79:fac969840e:-5a3a&action=AZGovernmentSites
Canada	http://www.gc.ca/depts/major/depind_e.html
New Zealand	http://www.govt.nz/en/search/govt-agency-list/
Ontario	http://www.gov.on.ca/MBS/english/government/index.html
United Kingdom	http://www.ukonline.gov.uk/QuickFind/AZCentralGovernment/fs/en?CONT_ENT_ID=1001001&chk=CdYlij

Home Pages of Key Organizations

Organization	Website
<u>Australia</u>	
Dept. of Prime Minister & Cabinet	http://www.pmc.gov.au/
Ministry of Finance & Administration	http://www.finance.gov.au/
<u>Canada</u>	
Privy Council Office	http://www.pco-bcp.gc.ca/
Treasury Board	http://www.tbs-sct.gc.ca/
<u>New Zealand</u>	
Dept. of Prime Minister & Cabinet	http://www.dpmc.govt.nz/
State Services Commission	http://www.ssc.govt.nz/display/home.asp
Treasury	http://www.treasury.govt.nz/
<u>Ontario</u>	
Management Board	http://www.gov.on.ca/MBS/english/mbs/index.html
<u>United Kingdom</u>	
Cabinet Office	http://www.cabinet-office.gov.uk/
Treasury	http://www.hm-treasury.gov.uk/

The websites below are organized by the following individual topics:

- Accountability and Performance Management
- Budget Process Manuals/Guidelines
- Cabinet Procedures Manuals/Guidelines
- Change management
- E-Government Strategies
- Legislative Drafting Manuals/Guidelines
- Monitoring and Evaluation

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- Performance Measurement Methodology
- Priority Statements (actual examples)
- Results Reports (actual examples)
- Service Quality Programs
- Strategic/Business Plans (actual examples)
- Strategic/Business Planning & Results Reporting Manuals/Guidelines
- World Bank website

Accountability and Performance Management

Australia's performance management framework

<http://www.dpmc.gov.au/pdfs/perfmgt3.pdf>

Canada's guidelines for executive performance contracts

http://www.tbs-sct.gc.ca/pubs_pol/hrpubs/TBM_114/saix_guidelines_e.asp

Canada's report on linking performance management to public debate

http://www.tbs-sct.gc.ca/rma/account/ppf-fpp_e.asp

Canada's guide to developing an accountability framework "PRAS"

http://www.tbs-sct.gc.ca/rma/dpr/old-PRAS-vieille-SPRR_e.asp

New Zealand's guide Managing for Outcomes

<http://www.ssc.govt.nz/display/document.asp?NavID=114&DocID=3527>

United Kingdom's outcome-focused management

http://www.hm-treasury.gov.uk/media//1BE78/GEP_outcome%20focused%20management.pdf

United Kingdom's review of audit and accountability policy

http://www.hm-treasury.gov.uk/media//A6D25/CM5456_Sharmans1.pdf

Budget Process Manuals/Guidelines

Canada's guide to preparing Reports on Plans & Priorities and Estimates requests

http://www.tbs-sct.gc.ca/est-pre/20042005/guide_0405_e.pdf

New Zealand's budget manual

<http://www.treasury.govt.nz/budgetprocessguide/>

Cabinet Procedures Manuals/Guidelines

Australia – Summary of Cabinet Process

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<http://www.dpmc.gov.au/pdfs/cabineted5.pdf>

Canada - Format for "Cabinet Memoranda"

http://www.pco-bcp.gc.ca/docs/Publications/mc/mc_e.pdf

Canada's Guide to the Regulatory Process

<http://www.pco-bcp.gc.ca/raoics-srdc/default.asp?Language=E&Page=Publications&Sub=RegulatoryProcessGuide>

New Zealand's Step-by-Step Guide for producing Cabinet documents:

<http://www.dpmc.govt.nz/cabinet/guide/index.html>

United Kingdom: best practices guide on developing policy strategies

<http://www.strategy.gov.uk/su/survivalguide/site/index/index.htm>

United Kingdom: Summary of Cabinet procedures

<http://www.cabinet-office.gov.uk/cabsec/2003/guide/index.htm>

United Kingdom: Guide to Regulatory Impact Assessment

<http://www.cabinet-office.gov.uk/regulation/scrutiny/ria-guidance.pdf>

Change Management

Australia's change management experience with Centrelink (single-window)

<http://unpan1.un.org/intradoc/groups/public/documents/APCITY/UNPAN003545.pdf>

Canadian case study in change management (financial information strategy)

http://www.tbs-sct.gc.ca/fin/sigs/FIS-SIF/communications/framework/0Cont_e.asp

New Zealand case study (establishing Ministry of Social Development)

http://www.ssc.govt.nz/upload/downloadable_files/Lessons-learned-from-organisational-change-establishing_MSD.pdf

UK Civil Service College course description for change management

<http://www.cmps.gov.uk/courses/course.asp?id=14911>

UK regional government change management handbook

<http://www.oursouthwest.com/SusBus/mggchange.pdf>

E-Government Strategies

Australia's e-government strategy

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<http://www.noie.gov.au/projects/egovernment/index.htm>

Canada's e-government strategy

http://www.ged-gol.gc.ca/pnl-grp/reports/final/final_e.pdf

New Zealand's e-government strategy

<http://www.ssc.govt.nz/display/document.asp?NavID=121&DocID=3088>

United Kingdom's e-government strategy

<http://www.number-10.gov.uk/su/delivery/indexFrame.htm>

United States' Federal Enterprise Architecture initiative

<http://www.feapmo.gov/>

Legislative Drafting Manuals/Guidelines

Australia's Legislative Handbook

<http://www.dpmc.gov.au/pdfs/LegislationHandbookMay00.pdf>

Canada's legal drafter's handbook

http://www.pco-bcp.gc.ca/docs/Publications/legislation/lmg_e.pdf

United Kingdom: Guide to Legislative Procedure

<http://www.cabinet-office.gov.uk/legislation/legguide/docs/legguide.pdf>

Monitoring and Evaluation

Canada's evaluation policy and guidebook

http://www.tbs-sct.gc.ca/eval/tools_ouils/polrmaf-polcgrr-PR_e.asp?printable=True

New Zealand report on improving evaluation

<http://www.ssc.govt.nz/display/document.asp?DocID=3506>

United Kingdom: Treasury's Green Book on appraisal and evaluation

<http://greenbook.treasury.gov.uk/>

United Kingdom: report on how to improve use of monitoring and analysis information

<http://www.number-10.gov.uk/su/adding/modelling/contents.htm>

United Kingdom's guide to monitoring and analyzing government financial accounts

http://www.hm-treasury.gov.uk/media//75465/rab_user.pdf

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Performance Measurement (Results-Based Management) Methodology

Canada's overview of performance management "Managing for Results"

http://www.tbs-sct.gc.ca/report/govrev/00/mfr-gar_e.asp

Canada's guide to benchmarking service quality

http://www.tbs-sct.gc.ca/pubs_pol/ojepubs/TB_O/10QG_e.asp

Canada's guide to measuring client satisfaction

http://www.tbs-sct.gc.ca/pubs_pol/ojepubs/TB_O/2QG_e.asp

New Zealand's performance measurement approach (various reports through Pathfinder project)

<http://io.ssc.govt.nz/pathfinder/information.asp>

New Zealand's guide to preparing output plans

<http://www.ssc.govt.nz/display/document.asp?NavID=114&DocID=2712>

United Kingdom's guide to performance measures (Choosing the Right Fabric)

<http://www.hm-treasury.gov.uk/media//BB5BC/229.pdf>

United Kingdom's guide to setting performance targets

http://www.hm-treasury.gov.uk/media//51B47/target_set_guide.pdf

United Kingdom: public service benchmarking service

http://www.benchmarking.gov.uk/about_bench/benchimpperf.asp

United Kingdom discussion paper (Strategic Audit) that extensively uses benchmarking to review comparative national performance and future opportunities

<http://www.strategy.gov.uk/output/Page4881.asp>

Priority Statements (actual examples)

Australia's Budget Speech

<http://www.budget.gov.au/2003-04/speech/download/speech.pdf>

Canada's speech from the throne

<http://www.pm.gc.ca/eng/sft-ddt.asp>

New Zealand's Budget Policy Statement

<http://www.treasury.govt.nz/budgetpolicy/2004/>

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New Zealand Prime Minister's Statement to Parliament

<http://www.beehive.govt.nz/ViewDocument.cfm?DocumentID=18877>

Ontario's Minister of Finance's Budget Speech

<http://www.gov.on.ca/FIN/bud03e/statement.htm>

United Kingdom: Chancellor's Budget Speech

http://www.hm-treasury.gov.uk/budget/bud_bud03/bud_bud03_speech.cfm

Results Reports (actual examples)

Australia's Government Report Card – Key Indicators

http://www.pm.gov.au/gov_rep_card/gov_report_card.cfm

Australia's Ministry of Finance & Administration's Annual Report

<http://www.finance.gov.au/Publications/>

Canada's Departmental Performance Reports (actual departmental reports)

http://www.tbs-sct.gc.ca/tbsimScripts/topic-sujet-list_e.asp?ID=138&view=expand

Canada's annual societal indicators report: "Canada's Performance 2003"

http://www.tbs-sct.gc.ca/report/govrev/03/cp-rc_e.asp

New Zealand's Annual Reports have to be accessed by individual ministry. Websites for each ministry can be found at: <http://www.govt.nz/en/search/govt-agency-list/> . One annual report example from Treasury is provided below

<http://www.treasury.govt.nz/annualreport/>

Ontario's results against the previous year's business plan targets are included in the business plan (see strategic/business plans actual examples section)

United Kingdom: actual results achieved vs. Public Service Agreements for a variety of departments and agencies

<http://www.hm-treasury.gov.uk/performance/index.cfm>

United Kingdom: access to performance reports for all government departments and agencies

http://www.hm-treasury.gov.uk/documents/public_spending_and_services/publicservice_performance/pss_perf_table.cfm

Service Quality Programs

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Australia's Centrelink, is a government agency that provides one-stop service delivery for a variety of services

http://www.centrelink.gov.au/internet/internet.nsf/about_us/index.htm

Canada's guide to service quality

http://www.tbs-sct.gc.ca/pubs_pol/ojepubs/TB_O/13QG_e.asp

Canada's guide on measuring client satisfaction

http://www.tbs-sct.gc.ca/pubs_pol/ojepubs/TB_O/2QG-PR_e.asp?printable=True

New Zealand's integrated service delivery proposal (Review of the Centre)

<http://www.ssc.govt.nz/display/document.asp?NavID=177&DocID=2759>

United Kingdom's service charter's (Chartermark) program

<http://www.chartermark.gov.uk/atoz/a-z.htm>

United Kingdom's spending review on shifting resources to front-line service

<http://www.civilservice.gov.uk/reform/documents/ERconsultation.pdf>

Strategic/Business Plans (actual examples)

Australia's Budget Portfolio Statements (planned outcomes and expenditures) provide this information. One example from the Ministry of Education, Science and Training is provided here.

<http://www.dest.gov.au/budget/PBS/2003/pdf.asp>

Canada's Reports on Plans and Priorities

http://www.tbs-sct.gc.ca/tbsimScripts/topic-sujet-list_e.asp?ID=136&view=expand

New Zealand's Statements of Intent have to be accessed by individual ministry. Websites for each ministry can be found at: <http://www.govt.nz/en/search/govt-agency-list/>. An example from the Treasury is provided below:

<http://www.treasury.govt.nz/soi/2004/>

Ontario's business plans have to be accessed under the individual ministry from the www.gov.on.ca site. One example from the Ministry of Education is provided below:

<http://mettowas21.edu.gov.on.ca/eng/general/business/edu-plan.html>

United Kingdom: access to all public service agreements and service delivery agreements

http://www.hm-treasury.gov.uk/documents/public_spending_and_services/publicservice_performance/pss_perf_table.cfm

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Strategic/Business Planning and Results Reporting Manuals/Guidelines

Australia's guide to preparing Annual Reports

<http://www.dpmc.gov.au/pdfs/annualreportrequirements.pdf>

Canada's guide to preparing Reports on Plans and Priorities (departmental strategic plans)

http://www.tbs-sct.gc.ca/est-pre/20042005/guide_0405_e.pdf

Canada's guide to preparing Departmental Performance Reports (annual performance results)

http://www.tbs-sct.gc.ca/pubs_pol/oepubs/TB_H/WKB_e.asp

Good Practice in Performance Reporting in Executive Agencies and Non-Departmental Public Bodies (National Audit Office, UK)

http://www.nao.org.uk/publications/nao_reports/9900272.pdf

New Zealand's guide to preparing Statements of Intent (ministry strategic plans)

<http://www.ssc.govt.nz/display/document.asp?NavID=114&DocID=3540>

New Zealand's guide to preparing Annual Reports (annual performance results)

<http://www.ssc.govt.nz/display/document.asp?NavID=114&DocID=3543>

US Program Assessment Rating Tool (evaluation of program effectiveness at the federal level)

<http://www.whitehouse.gov/omb/part/>

World Bank Website – This Publication and Background Papers

<http://www.worldbank.org.ru/ECA/Russia.nsf/ECADocByUnid/01961D2A6848D746C3256E5F003EFBC0>

ACKNOWLEDGEMENTS

This paper was produced by the World Bank Russia Civil Service Reform team to contribute to the debate on approaches to administrative reform in the Russian Federation. Chapter 1 was prepared by Neil Parison (ECSPE)¹ from an earlier background paper by Nick Manning (SASPR) and Neil Parison (ECSPE). Chapter 2 was prepared by Gordon Evans, Consultant (ECSPE) based on his earlier background paper. Chapter 3 was written by Yelena Dobrolyubova (ECSPE), Julia Shirokova, DFID-funded Consultant (ECSPE), and Gordon Evans², Consultant (ECSPE). The final edit of the paper was prepared by Neil Parison. The paper benefited from comments received from the peer reviewers, Dana Weist (PRMPS), and Robert Beschel (MNSD), as well as from Deborah Wetzel (Sector Manager, ECSPE).

The team is grateful for the comments received from public officials from the Russian Federation Government Ministry for Economic Development and Trade and Ministry of Finance. During the finalization of the paper a round table held with the participation of leading academic institutions provided a wealth of useful comments and insights to the team. The team would like to extend its thanks to experts who participated in the round table and other discussions from the State University – Higher School of Economics, the Center for Strategic Studies, Moscow State University, the Russia State Service Academy and the State University of Management. The authors would in particular like to express their thanks to the following Russian public officials and experts : Aleksey Barabashev, Mikhail Dmitriev, Lev Jakobson, Andrei Klimenko, Pavel Kudyukin, Viktor Lobanov, Alexey Novoseltsev, Andrey Sharov and Vladimr Yuzhakov.

Maya Gusarova, Anna Bazanova and Natalia Balashova provided excellent support throughout the preparation of this paper, both in English and Russian.

Neil Parison was Task Team Leader for the Russia Civil Service Reform work including the preparation of this paper. The Sector Managers responsible for providing guidance and oversight were Helga Muller and Deborah Wetzel, with Country Director Kristalina Georgieva and Sector Director Cheryl Gray. The support provided to the program by DFID through the trust fund for civil service reform (2004-2007) is gratefully acknowledged.

Comments are very welcome and should be sent to Neil Parison (Neil.Parison@Bannock.co.uk) and Yelena Dobrolyubova (YDobrolyubova@worldbank.org).

This paper does not necessarily reflect the views of the World Bank or its executive directors.

Neil Parison
February 2005

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² Gordon Evans is President of Evans Consulting.

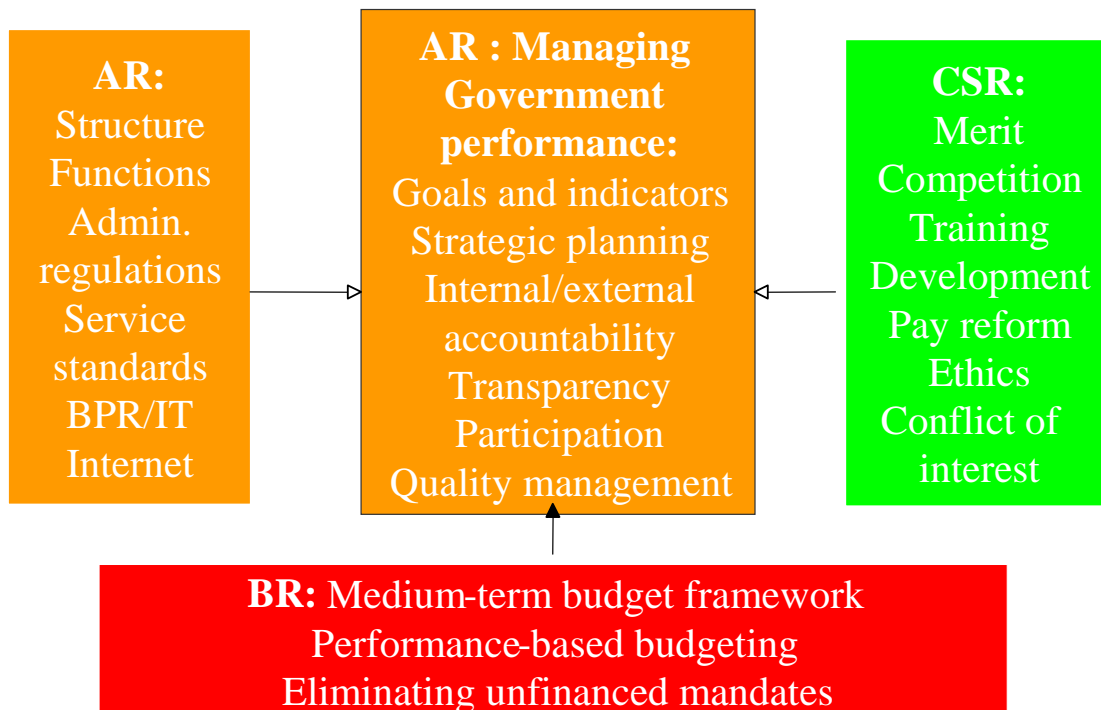
INTRODUCTION AND CONTEXT

Increasing Government Effectiveness: Approaches to Administrative Reform in the Russian Federation was produced as part of the World Bank's ongoing support to administrative and civil service reform in Russia. Consultations on the concept for this paper and on the selection of the countries used as examples were undertaken with the Apparat of the Government, the Ministry of Economic Development and Trade, the Ministry of Finance and the Ministry of Labor and Social Development; and with the Center for Strategic Studies and the Higher School of Economics.

The target audiences for this publication include senior Russian government officials, working-level counterpart Government officials, experts working on the RF Program for Administrative Reform, and managers of the subjects of the Federation who will be involved in designing and implementing administrative reform programs.

While this publication focuses on administrative reform, the authors sought to take appropriate account of the critical linkages between the three major public administration reforms being implemented in the Russian Federation as illustrated below (administrative reform (AR), budget reform (BR) and civil service reform(CSR)):

Administrative, civil service, and budget reform



Increasing Government Effectiveness

In the Russian context, *administrative reform* denotes reforms connected to the structure, machinery and functions of government; approaches to managing government performance (strategic planning, performance management, internal accountability), and approaches to improving service delivery and responsiveness (transparency, service quality programs and external accountability). Administrative reform was launched in Russia in February 2003 with President Putin's internal order setting out its basic directions. In October 2004, the administrative and budget reform processes were brought together within a Commission led by Deputy Prime Minister Zhukov; and a Program for Administrative Reform subsequently prepared.

This paper attempts to raise issues and explore options relevant to the next generation of Russian administrative reforms by:

- Summarizing administrative reform approaches and methodologies from other countries appropriate to the context and specific reform agenda in Russia, including brief case studies and lessons learned.
- Providing an index of websites with links both to the actual tools used by officials and practitioners from the selected countries, as well as to the resulting products (the index is included in the References section at the front of this paper).
- Assessing the implications of international experience for the further development and implementation of administrative reform in the Russian Federation.

This paper builds on the previous World Bank publication by Nick Manning and Neil Parison, "*International Public Administration Reform: Implications for the Russian Federation*", published in early 2004 in English and Russian. This served as an input to the development of the Russian Federation's Civil Service Reform Program through an assessment of approaches and experiences from fourteen countries chosen by the Russian Federation authorities. This initial publication identified four key concerns of reformers for developing a broad program of public sector reform. The figure below indicates the perceived relevance of these four concerns to the Russian Federation Program for Administrative Reform.

Reform Concerns	Relevance to RF administrative reform program	Prominence in this paper
1. Reducing public expenditure	Medium (addressed under budget reform)	Low
2. Improving policy responsiveness and implementation	Very high	High
3. Improving government as employer	Medium (addressed under civil service reform)	Low
4. Improving service delivery and building public and private sector confidence	Very high	High

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This paper focuses on the two concerns of highest relevance: (i) increasing policy responsiveness; and (ii) improving service delivery and building public and private sector confidence. To narrow further the paper's scope, reforms that did not fall within the remit of the government itself or involved other levels of government or the legislative or judicial branches were excluded. In the figure below, the reform areas that are covered by this paper are shown as *shaded*.

Reform Concerns	Reform Goals	Reform Initiatives
Improving policy responsiveness and implementation	<ul style="list-style-type: none"> • Redistribute/delegate powers (federalism; decentralization) 	<ul style="list-style-type: none"> • Federal governance reviews • Decentralization exercises
	<ul style="list-style-type: none"> • Modernize executive structures, mandates, functions 	<ul style="list-style-type: none"> • Restructuring exercises (ministry, agency) • Functional reviews
	<ul style="list-style-type: none"> • Strengthen policy systems and performance 	<ul style="list-style-type: none"> • Integrated (strategic) planning • Integrated performance management
Improving service delivery and building public and private sector confidence	<ul style="list-style-type: none"> • More effective, efficient service delivery model 	<ul style="list-style-type: none"> • Alternative service delivery exercises (including contracting out to private sector and to NGOs) • Benchmarking/ public charters • Service quality programs
	<ul style="list-style-type: none"> • Expand transparency and external accountability 	<ul style="list-style-type: none"> • Parliamentary/public oversight • Expanded private sector participation • Expanded civil society participation • Access to information • Stronger state audit office • Stronger legislative oversight • Better budget information (plans and results) • Whistleblowing
	<ul style="list-style-type: none"> • Strengthen rule of law 	<ul style="list-style-type: none"> • Judicial reform • Anti-corruption program

EXECUTIVE SUMMARY

The publication has been organized into three chapters, and is further supported by a website index and four background papers.

Website Index for Administrative Reform

This paper focuses on the practical tools and methodologies used by OECD and other governments. It was felt to be important to provide ongoing access to these tools and methodologies for Russian practitioners. Accordingly, a listing of website addresses where these products can be accessed prefaces this paper. These are organized under topics relevant to government effectiveness and provide links both to manuals and policy papers containing the methodology and also to actual examples of the related products (e.g., a ministry strategic plan or annual report). Note that this index is included on the World Bank's Russia Civil Service Reform website, where the hyperlink facility can be used. The website address is:

<http://www.worldbank.org.ru/ECA/Russia.nsf/ECADocByUnid/01961D2A6848D746C3256E5F003EFBC0>

1. Optimizing government structure and functions

The first chapter reviews how functional and program reviews have been used to determine the appropriate structure and functions of government with a view to increasing overall government effectiveness and efficiency. The paper assesses the experiences of fourteen counties and 25 such programs in those countries. Five generic types of reviews are identified:

1. pure policy or program reviews;
2. pure efficiency reviews;
3. upstream program and efficiency review;
4. mainstream ministry/agency-level functional review; and
5. downstream organizational reviews and business process re-engineering.

The paper then demonstrates how the choice of a particular type of review can depend on the respective emphasis being placed on effectiveness versus efficiency outcomes. Using case examples, the issue of what factors influence that choice is reviewed. Finally, the chapter outlines the different design and process considerations that will characterize the three most common types of reviews (1, 2, and 4 from the list above). Six decision trees are provided to illustrate the specific steps and questions used to conduct these reviews:

1. identifying programs for restructuring or closure (pure policy or program reviews)
2. identifying least damaging efficiency savings (pure efficiency reviews)
3. identifying necessary functions to be retained (mainstream ministry/agency review)
4. selecting the appropriate operating environment (mainstream ministry/agency review)

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5. locating inherently government functions (mainstream ministry/agency review)
6. structuring public sector organizations (mainstream ministry/agency review).

The mainstream ministry/agency-level functional review is identified as the approach most appropriate for the second stage of functional reviews in Russia and is accordingly described in most detail. These reviews would take place at the level of individual Federal ministries together with their subordinated structures. These reviews could also be conducted at the level of subjects of the Federation and municipalities.

II. Strengthening government performance

Chapter two emphasizes that getting the structure of government right, while important, must be accompanied by measures to strengthen policy and performance management together with the supporting government planning and accountability systems. Tools and methodologies used in Canada, the Province of Ontario, New Zealand and Lithuania to support the critical processes and structures affecting a government's policy and performance capacities are described.

Processes
1. Integrated Policy and Fiscal Planning
2. Integrated Performance Management
Structures
3. Executive Decision-Making Bodies
4. Central Agencies

To frame the discussion on processes, a four-stage model of the policy process is provided. The stages include:

1. executive sets broad policy commitments
2. departmental preparation of detailed policies and budgets
3. executive ensures means to implement
4. departmental implementation.

Integrated policy and fiscal planning covers the first three stages, while integrated performance management relates to the fourth. Examples of the tools used by the four governments to support these processes are provided, including priority-setting, strategic plans, policy development procedures, fiscal impact assessments, agenda management mechanisms, legislative planning, performance measures, service quality measures, annual reports, and individual performance evaluation.

The section on structures begins with a review of executive decision-making bodies. Emphasis is placed on how the Cabinet/Council of Ministers can effectively use sub-committees to improve decision-making quality by ensuring that more in-depth policy deliberations occur prior to presentation of ministry proposals at the full Council of Ministers' meeting. An example from Lithuania illustrates how a policy management reform program measured and improved the performance of the government's decision-making system.

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The section on central agencies underscores the important role that such bodies play in supporting decision makers and assuring the quality of the policy and financial proposals submitted to the Council of Ministers. Various configurations, functions and roles/responsibilities of central agencies that support the integrated policy and fiscal planning and integrated performance management processes are outlined.

Finally, the potential implications of strengthening such processes and structures at the Federal level of government in the Russian Federation are presented. Such measures will, of course, need to be tailored to the Russian context, but a range of critical success factors are provided as possible assistance to these deliberations. To prompt discussion on possible ways to gauge the success of Russia's public management reforms, a series of objectives and performance indicators are proposed.

III. Improving service delivery and quality

Chapter three summarizes experience with improving service delivery and quality through practical approaches to transparency, external accountability (public accountability) and service quality programs for potential adaptation to the ongoing Russian Federation reform program. The chapter begins with a review of common mechanisms through which governments increase transparency. These include practical tools and techniques (e.g., freedom of information programs; open procurement process) used by governments for implementing two dimensions of transparency: transparency of information and transparency of process.

The second section on public accountability details a variety of approaches used to inform and engage the public, civil society, and stakeholders in the policy process. Implicit here is the assumption that policy quality is improved if those affected by it are meaningfully involved in its development and ongoing assessment.

The third section on service quality reviews how governments are increasingly (and systematically) designing and delivering programs from the service recipient's rather than the service deliverer's perspective.

The final section reviews the current experience with these issues within the Russian Federation and proposes some priority measures to improve service delivery and quality through strengthening transparency, public accountability and service quality in the next generation of administrative reforms.

Background Papers

Four background papers will be published separately to supplement this publication. These include:

Determining the Structures and Functions of Government: Program and Functional Reviews – Nick Manning and Neil Parison. This paper provides a more in-depth review of the analysis and case examples provided in chapter one.

Managing Government Performance: Tools and Techniques – Gordon Evans. This paper presents four case studies used by practitioners in Canadian Federal Government, Provincial Government of Ontario, Government of Lithuania, and

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Government of New Zealand) that served as the primary source of material for chapter two.

Performance Indicators for Public Administration Reforms in Russia: Possible Approaches – Yelena Dobrolyubova. This paper provides further background on developing performance indicators and was the source for the charts included in chapter two on select indicators for the Russian Federation Program of Administrative Reform.

Increasing Government Transparency and External Accountability: International Experience – Julia Shirokova and Yelena Dobrolyubova. The paper provides further information on experiences with external accountability mechanisms and monitoring of citizens' satisfaction with government services.

The background papers are posted on the World Bank's Russia Civil Service Reform website (see website index in preface to this paper).

I OPTIMIZING GOVERNMENT STRUCTURE AND FUNCTIONS

1.1 Introduction

This chapter describes a range of approaches to determining the most appropriate structure and functions for government. It presents an assessment of international approaches and actual experiences in undertaking program and functional reviews as part of an administrative reform program. The chapter draws on twenty five examples from fourteen different countries (the examples are presented in more detail in Appendix 1).

Section 1.2 provides an overview of international experiences while section 1.3 provides examples of the specific approaches and methodologies used in the most common types of program and functional reviews. Section 1.4 recommends an appropriate methodology for undertaking such reviews in Russia as part of the developing administrative reform program, taking into account both the context and needs in Russia and also relevant international experience.

1.2 International Experience of Program and Functional Reviews

Countries and functional review experience examined

The comparative analysis in this chapter derives from the following international examples of program and functional reviews:

Brazil – Inventory of Government programs

Canadian reviews:

Government of **Canada** – 1994 program review

Government of **Canada** – ongoing Alternative Service Delivery reviews

Canada : Province of **Alberta** – ongoing Alternative Service Delivery reviews

Canada : Province of **Manitoba** – ongoing Alternative Service Delivery reviews

Canada : Province of **New Brunswick** – Program and Service Review

Canada : Province of **Ontario** – ongoing Alternative Service Delivery reviews

Canada : Province of **Quebec** – Autonomous Service Unit Program

Canada : City of **Winnipeg** – Management Reference Model reviews

Jamaica – agency modernization diagnostic reviews

Jordan – functional review of the Department of Administrative Development

Kazakhstan – 1998 functional review

Latvia – 1999 functional review of the Ministry of Agriculture

Macedonia – 2001 wagebill reduction review

New Zealand – reviews of the State Sector

Nicaragua – structure and function diagnoses

Papua New Guinea – functional reviews

Tanzania reviews:

Tanzania : Review for agency status

Tanzania : Organization and efficiency reviews

Thailand – 2000 functional reviews

UK reviews:

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UK : Prior Options reviews
UK : Better Quality Services and Best Value Reviews
UK : Market Testing
UK : Fundamental Expenditure reviews
USA – Bottom up review of the Department of Defense

Objectives of functional reviews

Reform teams in governments have launched program and functional reviews for a number of reasons. The most common has been in response to fiscal pressures, with the reviews being designed explicitly from the outset to identify sometimes significant savings. Others have been designed in response to pressure from political leaders wishing to increase the policy responsiveness of the government machine and to strengthen the effectiveness with which policies are translated into actions and outcomes. Others have been driven at least in part by a desire to respond to pressures from either the private sector or citizens for better and more appropriate services.

Reviews can focus on two different subjects for potential reform: **organization** and **policy**. Organizationally, reviews can identify individual Ministries, agencies or work units that are to be restructured for cost-effectiveness, effectiveness, and/or efficiency reasons. In terms of policy, reviews can require that all government policies and programs be considered, or can focus on specific policy areas or programs felt to require particular attention or to be particularly problematic.

A narrow review focus on how a set of organizations is structured and managed, without any attempt to review the policies that they are asked to implement, is a **classical review of operational efficiency**. The question in this case is: "**how can we reduce running costs or improve service quality while delivering these programs?**" Conversely, a focus on government policy and programs without any concern to review the organizational arrangements that deliver them represents a **'pure' effectiveness study of policies and programs**. The question in this case is: "**what are we best at doing?**"

These different approaches are of course related. Operational efficiency and program effectiveness are inextricably linked. What governments *should* do is inevitably linked to the question of what they *can* do well. However, the linkage is not mechanical and in undertaking efficiency and effectiveness reviews, different governments have made different choices at different times, with varying degrees of specificity regarding which organizations and which policies they are concerned about.

Typology of program and functional reviews

There are five main types of program and functional reviews. While there are many possible different approaches and combinations, the basic picture is of five different types of reviews which can be shown to have increasingly narrow concerns (see figure 1 below):

1. 'Pure' policy or program reviews

Description:

These reviews aim at securing comprehensive policy reforms, with low priority programs being dropped and resources and efforts targeted at higher priorities. The reviews tend not to get into detailed organizational level arrangements, prescribe detailed restructuring, or identify changes at the level of business processes.

Typical applications:

Many efforts to define (or re-define) the government sector in transition economies fall within this category. Reviews in preparation for the divestiture of non-core activities and ceasing non-government functions, including the review of agencies/state owned enterprises for closure/privatization, fall within this category, with the consequent organizational restructuring being incidental to the larger objective of elimination of non-priority programs.

Examples:

- Brazil – inventory of government programs
- Government of Canada – 1994 program review
- Kazakhstan – 1998 functional review

2. 'Pure' efficiency reviews

Description:

This type of review envisages no major changes in government policies and programs, but focuses instead on identifying organizational and business process changes which can generate the same outputs at greater efficiency.

Typical applications:

The reviews can be fiscally-driven and undertaken with a view to introducing hiring and wage freezes and base pay reductions or across the board staff cuts and early retirements. Such reviews can also be undertaken in preparation for securing from Ministries/agencies annual efficiency targets.

Example:

- Macedonia – 2001 wage bill reduction review

3. Upstream program and efficiency review

Description:

This type of review envisages comprehensive policy reforms, including a shifting from low to high priority programs, together with the restructuring of government-wide processes including large scale restructuring of the machinery of government.

Typical applications:

In New Zealand, the reviews were strikingly top down, centralized, and expert-driven. Political ownership and conceptual rigor were the hallmarks. Buy-in from the wider public sector came later and there were relatively few attempts at broad participation during the process.

Example:

- New Zealand – reviews of the State Sector

4. Mainstream ministry/agency-level functional review

Description:

These reviews consider reshaping some programs, dropping some activities, and restructuring some entire Ministries/agencies but without large scale changes to the overall machinery of government.

Typical applications:

Such reviews can focus on the elimination of duplication, the consolidation of similar services, and the merger of similar functions/units from different ministries/agencies. These reviews tend to be based on a clear methodology/criteria for the reviews set by the center of government (Cabinet Office, Ministry of Finance), and are generally undertaken by teams including representatives from center of government bodies, and the Ministry/agency under review, together with external experts or consultants. There appears to be broad international experience of developing and implementing such programs of reviews.

Examples:

- Canadian reviews: Government of Canada – ongoing Alternative Service Delivery reviews; Province of Alberta – Alternative Service Delivery reviews; Province of Manitoba – Alternative Service Delivery reviews; Province of New Brunswick – Program and Service Review; Province of Ontario – ongoing Alternative Service Delivery reviews; City of Winnipeg – Management Reference Model reviews
- Latvia – 1999 functional review of the Ministry of Agriculture
- Nicaragua – structure and function diagnoses
- Papua New Guinea – functional reviews
- Tanzania reviews: Organization and efficiency reviews
- Thailand – 2000 functional reviews
- UK reviews: Fundamental Expenditure Reviews; Better Quality Services and Best Value Reviews
- US reviews: 'Bottom Up' review of the Department of Defense

5. Downstream organizational reviews and business process re-engineering

Description:

These entail dropping or changing specific activities and services within a specific ministry/agency, or the detailed restructuring of a specific agency.

Typical applications:

These reviews tend to focus on the consolidation of similar services within the same ministry or agency, and could include pursuing options such as automation and contracting out or market testing (i.e., the introduction of competition in the provision of administrative services).

Examples:

- Canadian reviews: Province of Quebec – Autonomous Service Unit program
- Jamaica – agency modernization diagnostic reviews
- Tanzania reviews: Review for agency status
- UK reviews: Prior Options reviews; Market Testing

Figure 1 Choices for the review focus

		Organizational level focus – efficiency concerns ("running costs", service quality)			
		No organizational efficiency improvements sought	Whole of government efficiency improvements sought	Ministry or agency	Sub-units
Policy and program level focus – effectiveness concerns ("policy costs", outcomes)	No effectiveness improvements sought		'pure' efficiency savings sought		
	Effectiveness improvements sought comprehensively or in groups of programs	'pure' policy or program reforms sought	upstream program and efficiency reviews		
	Individual programs, government-wide activities			mainstream Ministry/agency-level functional reviews	
	Specific activities and services				downstream activity and organizational reviews and BPR

Aligning functional reviews with the budget process

The defining characteristic of efficiency and effectiveness reviews is that they entail a discrete approach for developing recommendations for change outside of the usual budget and planning cycle. However, clearly the results of the review must ultimately be incorporated within the budget. Reviews will not lead to concrete outcomes if central government bodies are in the position of suggesting reforms that they have neither the budgetary information to justify fully nor the leverage to implement fully. Reviews may also lead to disappointing outcomes if they identify areas in which legislative change is required, but do not assess the feasibility of securing such changes. Finally, there is a significant risk of mis-timing if the Ministry of Finance/Budget Office is provided with recommendations at an inappropriate point in the budget cycle.

Budget comprehensiveness

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Upstream and mainstream reviews are generally dealing with more than one administrative unit (ministries/agencies). In reviewing entire programs, or in focusing on ministries and their subordinate bodies, such reviews look at all the bodies that contribute to a program and may propose a reallocation of resources between and within them. This is based on the assumption that ministries both have information on the activities of their subordinate bodies, and also have authority in enforcing changes in structure and in priorities.

That information and that authority to enforce change derive significantly from the budget. When some revenues and expenditures are off-budget, the parent ministry may have no detailed knowledge of their activities and therefore has limited ability to enforce change as the subordinate body has effective autonomy. Off-budget cost-recovery mechanisms can exacerbate this problem significantly. When fiscal pressures encourage public agencies to finance their operations through off-budget user charges, the consequence is again that agencies have few incentives to respond to the requests for rationalization or policy change from their supervising ministry.

Flexibility in Ministry/agency mandates

One contributory factor in the intermittent successes of efficiency and effectiveness reviews in OECD countries has been that the legal mandates of the Ministries/agencies and programs have been flexible, or have been changed in step with the review process. The Government of Canada – 1994 program review and the Better Quality Services and Best Value Reviews in the UK have required comparatively few legal changes: it is largely within the authority of the relevant ministers to amend the structure of the executive bodies and to simply cease provision of some services.³

In other European and Latin American administrative traditions, the situation is very different. In those contexts, efficiency and effectiveness reviews must therefore take account of the fact that significant program changes will require legislation to be enacted or amended, with all the accompanying uncertainties thereby entailed.

Coordination with the budget cycle

Upstream program reviews would shape the entire budget process, with reductions in the budget envelopes available to the spending ministers announced at the *start* of the budget cycle. The ambitious Federal Enterprise Architecture initiative in United States appropriately emphasizes that the model “will be of little use to the agencies if...issued after the agencies have completed major phases of their own capital planning processes.” *Mainstream* functional and agency reviews have their impact *during* the budget cycle. For these reviews, the selected ministries/agencies must offer up their proposed rationalization plans following the distribution of the budget guidelines. In some, largely Parliamentary, settings it is reasonable to assume that ministries/agencies will accept the discipline of the review process and would submit a radically reduced budget submission based on the review. In other settings it is

³ The reforms to the intergovernmental fiscal transfers were of course an exception to this and required significant legislative change (Tupper 1996).

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more probable that the Ministry of Finance/Budget Office would take the lead in proposing a new budget estimate based on the completed review findings.

The key issue is timing. If a realistic timetable for a comprehensive review is perhaps 6 months, then this requires that they are started this much in advance of the final budget reconciliation undertaken by the Ministry of Finance/Budget Office. Missing this window will leave the Ministry of Finance/Budget Office with a series of unenviable choices. They can either restructure the estimates based on little more than guesswork. Alternatively they can wait a further year before the data from the review can be utilized. Finally, they can of course seek a budget amendment, with all the political risks and the central agency management time that initiating such a legislative amendment may entail.

Formal evaluations of international functional review experience

Of the international functional reviews examined, few have been the subjects of any systematic evaluation.

Of the *'pure' policy or program reviews*, the *Government of Canada – 1994 program review* has been extensively evaluated and generally the findings are very positive. See (Armit and Bourgault 1996; Aucoin and Savoie 1998; Auditor General of Canada 1998; Davis, Weller, Craswell and Eggins 1999; Mets 1995; Peters and Savoie 1998; Treasury Board of Canada Secretariat 2001). The evaluators note that the impact was impressive with 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. All this was achieved without strikes or other significant labor relations problems.

It is important to note that other program reviews have not had such positive outcomes. An earlier review in Canada, led by the Nielsen Task Force in the mid 1980s, led to a large volume of reports being produced on the evaluation of departmental programs and policies, and on detailed recommendations for change. However, little demonstrable action was taken on this reform effort for several reasons. It was perhaps over-ambitious and overly concerned with efficiency savings rather than a clearly understood revision of the role of government. This may have led to some confusion between the policy and the institutional changes that it was recommending. Also, it was driven at the political level by a new government, with a strong suspicion that there was a hidden political agenda, reducing buy-in and commitment to change. Additionally, in that period of deficit financing in the 1980s, budget constraints were not felt to be particularly hard. The 1983 Grace Commission in the USA also had questionable impact.

Schick points out that successful program reviews probably owe their triumph more to the mood of the times than to any technical innovations. He notes that nearly every country that tried to build a formal program analysis and review system in the 1960-1990 period failed. "The Netherlands made little progress with a reconsideration effort that involved the Cabinet in selecting programs for reexamination; Sweden had little results from program budgeting, the United Kingdom installed and then discarded a program analysis and review system, the United States adopted an ambitious planning-programming-budgeting system, and other countries also introduced similar innovations." (Schick 1999, p. 7) He concludes that the reason for

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the many failures was that voters and politicians were not yet convinced of the compelling need to halt the growth in government spending and to reallocate resources from lower to higher priorities. "Although program reallocation still is difficult, the political mood of the 1990s has been much more hospitable to efforts to rearrange government programs and expenditures than it was during the postwar growth spurt." Other reviews of broad program reviews have been less critical (OECD 1999).

Although the 1994 Program Review in Canada is referred to here as a 'pure' policy or program review, this is really a question of emphasis. That review also introduced a program of change in the machinery of government, with a major program of Special Operating Agencies initiated and many services contracted out to the private and not-for-profit sectors. These managerial reforms and efficiency improvements were however not the centerpiece of the reforms.

The *upstream program and efficiency review* undertaken in the *New Zealand – reviews of the State Sector* has also been extensively evaluated. See for example (Boston, Martin, Pallot and Walsh 1996; Manning 1995; Schick 1996). (Steering Group 1991) reported on the implementation of the comprehensive New Zealand reforms, noting in general terms that the accountability arrangements had withstood the shock of change fairly well. The review used interviews with ministers, group interviews, and a survey of chief executives, supplemented by case studies. Most recently (Boston 2000) reported that the outcome was unclear, but the tenor of the evaluation was positive.

The South African Presidential Review Commission can also perhaps be included in this category, but no evaluation is available (The Presidential Review Commission 1998).

The *mainstream Ministry/agency-level functional reviews* undertaken in the *Latvia – 1999 functional review of the Ministry of Agriculture* and the US *'Bottom Up' review of the Department of Defense* were both reviewed in varying depths. The Latvia review was followed by an assessment by an independent consultant that found that the recommendations of the review had been well implemented, although there had not been sufficient time to evaluate the impact (István 2000). The General Accounting Office comprehensively evaluated the US review (General Accounting Office 1995). It found that the Department of Defense incorporated unsubstantiated assumptions about the availability of forces, supporting capabilities, and enhancements that it concluded were necessary.

A recent evaluation of the UK Best Value pilot reviews in local government noted that the processes required to undertake the reviews were challenging but achievable, and that there was significant externalities as staff learned more about innovations in other authorities. Service delivery and efficiency improvements were reported to be patchy and not statistically significant, but nevertheless some were identified.

No comprehensive evaluations of the *'pure' efficiency reviews* or of *downstream organizational reviews and business process re-engineering* were identified. Initial results from Macedonia on the impact of the review there suggest that progress towards substantial efficiency savings has been limited.

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There is remarkably little data available on the costs of reviews. The evaluation of the UK Best Value pilot reviews noted that only half of the responsible managers felt that the subsequent savings would recoup the costs of the reviews (Department of Environment 2001). However, it is not clear whether this is an accurate prediction of the actual costs and benefits.

What determines the type of review?

Overall, it seems that efficiency and effectiveness reviews are undertaken not because there is a large body of knowledge confirming that they do in fact lead to measurable and sustainable improvements in either efficiency or effectiveness. If therefore they are undertaken more in hope than in certainty, the question arises: what is driving them? It is self-evident that fiscal pressures provide the broad context, accompanied by a renewed quest for legitimacy by (at least OECD) governments. The shape of the reviews undertaken in particular countries is driven by the idiosyncrasies of the local political economy, but a few triggers stand out.

On the basis of the limited evidence provided by the reviews identified in Appendix 1, it seems that *'pure' policy or program reviews* are associated with some de-legitimization of the usual policy process. Brazil and Canada both have had, historically, well-recognized problems in aggregate fiscal discipline and there is a significant constituency within government that considers that bottom-up pressures are not adequately countered by top-down restraints. See, for example, (Kelly 2000) who points out that when Canadian governments possessed the political will to attempt expenditure restraint they rarely also had the political capacity to give effect to these good intentions. (Alesina, Hausmann, Hommes and Stein 1999) point out the finely balanced nature of the institutional arrangements in Brazil, which fall half way between collegial and hierarchical.⁴ A review of policy, outside of the usual institutional constraints, becomes a rational strategy.

In Brazil there was a fear that covert political resistance within the bureaucracy would derail any specific reform targets – and so they selected a 'pure' policy review based on an information trawl without targets. Canada, by contrast, could manage the discipline within the public sector and specified clear quantitative targets for the policy review.

The Macedonia *'pure' efficiency review* was a direct product of donor encouragement. The Government of Macedonia agreed with the IMF to reduce the central government 2001 wage bill significantly, and to cap the total salaries paid from 'special' (off-budget) revenues. The agreed reduction in the wage bill was designed to lead to staff reductions in the central administration of up to 6,000 staff in 2001. The World Bank developed a methodology that it offered to the Government of Macedonia to meet the agreement without impairing the government's ability to deliver necessary policy reforms.

⁴ “Hierarchical” procedures imply ex ante constraints on the size of deficits, adopt top bottom voting procedures and are transparent. “Collegial” refers to procedures that have the opposite characteristics.

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The New Zealand *upstream program and efficiency* review reflects the presence of a remarkably strong central agency (Treasury) with excellent connections within a relatively small business and professional community and with a remarkably coherent set of political and ideological positions (Lowe and Roper 1996).

There seems to be varying forces driving the *mainstream Ministry/agency-level functional reviews*. The US example seemingly reflects, at least in part, a defensive maneuver on the part of the department concerned, wanting to head off anticipated funding difficulties. All of these types of review are, however, undoubtedly stimulated by the widespread perception that new management technologies and approaches are enabling improvements in operational efficiency. The Canadian 'alternative service delivery' reviews have the strongest ideological connotations, with a sense that there is a new set of ideas whose time has come.⁵

A summary of the choices

Appendix 1 describes the country examples in more detail.

⁵ It is important to keep in mind that recent research on comparative reforms discredits any notion that there is a single, first-best model towards which OECD public sector management arrangements are relentlessly tending. See for example (Pollitt and Bouckaert 2000).

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Figure 2 Distinctive features of efficiency and effectiveness reviews

	'Pure' policy or program reviews	'Pure' efficiency reviews	Upstream program and efficiency review	Mainstream Ministry /agency level functional review	Downstream organizational reviews and business process re-engineering
Reviewing what?	Broad policies and major government programs	Organizational and business processes across government	Major policies and programs; government-wide processes; machinery of government.	Specific programs, and the organizational structure of Ministries or larger Departments	Specific activities and services, and the structure of smaller agencies
Budget comprehensiveness	Critical			Important	Less important
Coordination with the budget cycle	Changes in the budget envelopes available to the spending ministers announced at the start of the budget cycle	Selected ministries must offer up their proposed rationalization plans following the distribution of the budget guidelines			
Drivers of the reviews	De-legitimization of the usual policy process	Donor encouragement	Strong central agency and coherent set of political and ideological positions	Not clear	Not clear
"Successes"	Government of Canada – 1994 program review		New Zealand – reviews of the State Sector	Latvia – 1999 functional review of the Ministry of Agriculture UK reviews: Better Quality Services and Best Value Reviews	

1.3 Designing and Implementing Program and Functional Reviews

This section focuses on the three most widely used types of reviews:

- **'Pure' policy or program reviews** - envisaging comprehensive policy reforms, with only a passing interest in organizational level arrangements
- **'Pure' efficiency reviews** - envisaging no major changes in government policies and programs, but assuming that organizational and business process changes can generate the same outputs at greater efficiency
- **Mainstream Ministry/agency-level functional reviews** – considering the reshaping of some programs, the dropping of some activities, and the restructuring of some entire Ministries/agencies but without large scale changes to the overall structure or machinery of government.

Reviews are aids to management judgment – not mechanical devices that automatically lead to a single best solution. They comprise two principal elements:

- The organizational processes for managing the review and for disseminating the results; and
- The 'decision trees' that encapsulate the rules, priorities and criteria for the review.

The "decision trees" represent a method for conveying succinctly the complex assumptions and criteria that drive reviews – the source of their critiques of existing policies and organizational structures.

'Pure' policy or program reviews

Key elements of the process

The following key steps were involved in the Canadian program review exercise (Kroeger 1998):

1. There was an initiating explicit commitment by the political party to reduce the budget deficit to 3% of GDP;
2. That commitment was reconfirmed in the 'throne speech' undertaking that election promises would be implemented (February 1994);⁶
3. A coordinating Minister was appointed (February 1994);
4. A special committee of ministers was created to manage the review;
5. Program evaluation criteria were set out (February – June 1994);
6. Notional targets for each Ministry were developed in bilateral discussion with the Privy Council Office;⁷
7. Ministries worked on their proposals and the coordinating Minister met with sector Ministers with repeated bilateral discussions (May – August 1994)
8. Strategic plans prepared by Ministers and submitted to a secretariat established in the Privy Council Office that reviewed them prior to presenting them to a

⁶ The speech from the throne is the term used for the opening of Parliament by the Governor General in Canada.

⁷ Equivalent to Cabinet Office or Chancellery.

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- committee of senior officials⁸ chaired by the head of the civil service⁹ that shadowed the committee of ministers;
9. Following comments from the committee of senior officials, revised plans were presented to the committee of Ministers and a second round of negotiations commenced;
 10. Further reports were presented by Ministers that examined particular problems and 'horizontal' (coordinating) issues that had emerged during the first round;
 11. The coordinating Minister presented the final report to cabinet (January – February 1995);
 12. The final report was presented to the Prime Minister and results incorporated into budget preparation by Ministry of Finance (February 1995);
 13. Implementation was over a realistic 3-year period;

The special committee of Ministers that was created to manage the review provided strong central leadership, and disseminated a challenging but clear set of criteria for reviewing policies with explicit criteria for reviewing programs and initial targets specified top-down for each major spending program. The process provided encouragement for flexibility and ingenuity in proposing solutions to reach those targets – allowing bottom-up identification of the appropriate response. Its close alignment with and eventual integration into the budget process avoided the need to establish any special monitoring mechanisms to gauge implementation progress outside the normal planning process. Reporting could occur through established channels to the Privy Council Office and Treasury Board Secretariat.

Public expectations were managed, with explicit concern being generated by central and provincial governments concerning the size of the deficit and Canada's future prospects. In retrospect, it is clear that politicians took a significant risk in emphasizing to the public the dangers of doing nothing. This tactic helped the public see an advantage in otherwise painful reforms, but it could have generated a backlash against the very government that was attempting to introduce them.

Although high profile, the process deliberately avoided public debate on technical design of the reform programs. It was transparent within the public sector, however, with extensive involvement from all senior staff. The committee of ministers was at pains to point out that **all** government policies were being reviewed, including those implemented by the central agencies. At the insistence of the head of the civil service, the central agencies each took a 15% reduction in their staffing. There was a widespread recognition that the central agency drivers of the process could not themselves escape from the pressures faced by their service-providing colleagues.

Focus was maintained by the frequent repetition of a set of guidelines, frequently included in ministerial speeches and widely distributed to all departments.

⁸ "Deputy Ministers" in the Canadian term, although this can be a confusing label as they are career civil servants.

⁹ The 'Clerk of the Privy Council', also a career civil servant.

Box 1 Criteria for program review

- Does the program area of activity continue to service a public interest?
- Is there a legitimate and necessary role for government in this program area or activity?
- Is the current role of the federal government appropriate or is the program a candidate for realignment with the provinces?
- What activities could be transferred in whole or in part to the private or voluntary sector?
- If the program or activity continues, how could its efficiency be improved?
- Is the resultant package of programs and activities affordable within the fiscal restraint? If not, what programs or activities should be abandoned?

source: (Kroeger 1998, p. 17)

The review was accompanied by some complex changes in Canada's already intricate system of intergovernmental relations, with many transfers from the federal to provincial governments consolidated and dramatically reduced. Although the review included an explicit focus on jurisdictional alignment, some commentators have questioned the volume of responsibilities that were actually transferred. In fact, the primary impact on intergovernmental relations was fiscal, with \$4.5 billion over three years being cut from federal transfers to provinces on top of \$1.5 billion previously announced. The case can be made that these cuts served as the catalyst and created incentives for the provincial administrative reforms carried out in the mid and late 1990s.

Decision trees used

Drawing significantly on the Canadian example, the primary decision tree employed in program review provides guidance to departments and ministries on selecting programs that can be restructured or closed. It starts from the position that they should disaggregate the programs for which they are responsible into some coherent elements, and then by applying the criteria set out by the committee of ministers, determine which programs are promising candidates for restructuring or closure.¹⁰

It is important to note the range of policies and programs that can be covered by program reviews. Efficiency and effectiveness reviews do not claim to examine every area of government policy.¹¹ For example, they do not look at:

1. Macroeconomic policy (monetary policy, including exchange rate, interest rate or financial sector policies);
2. Overall fiscal policy (aggregate expenditure policy, tax policy and treasury management policy)
3. Trade policy (tariff, quota, subsidy and regulatory policies)
4. Labor market and industrial policy (wage policy, social security policy and labor standards).

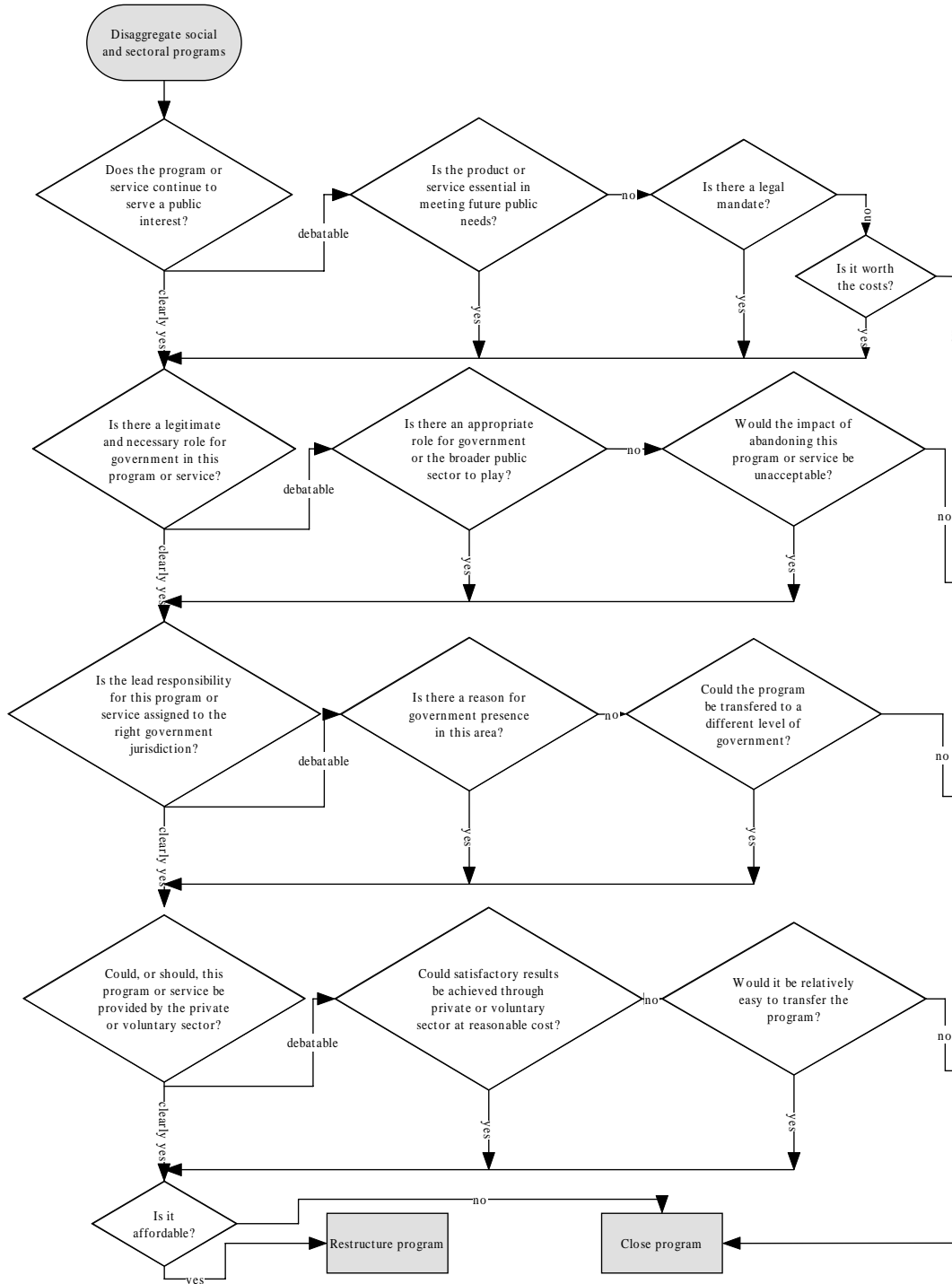
¹⁰ There is also an extensive literature on program reviews within higher education. This refers to the comprehensive and systematic reviews of academic programs. There is some comparison with the narrower functional and agency reviews, but little of relevance for this larger review of government programs. See (Mets 1995).

¹¹ (Evans and Manning 2001) provides a summary of the ways in which policies and programs can be classified.

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Program reviews focus on social and sectoral policy programs, and very particularly key social policy programs. This, of course, accounts for the majority of budget expenditure.

Decision tree 1 Identifying programs for restructuring or closure



Sources: Authors, derived from (Wilkins 2001)

Increasing Government Effectiveness

'Pure' efficiency reviews

Key elements of the process

In Macedonia, the World Bank developed a methodology that it offered to the Government of Macedonia to meet the agreement the Government had reached with the IMF without impairing the government's ability to deliver necessary policy reforms. The approach entailed that the Ministry of Finance prepare a budget with wage bill caps for individual ministries and agencies, accompanied by a hiring and wage freeze in 2001. The caps, it was suggested, should be developed so that the total government wage bill for all ministries/agencies represented the agreed aggregate limit, with the caps proposed for individual ministries/agencies reflecting the incorporation of special revenues within the central government budget and the exclusion of agencies and responsibilities slated for divestiture.

The caps were also intended to give recently merged ministries operational efficiency targets, and to take into account those ministries/agencies where the most significant increases in the wage bill occurred in prior years - unless there was felt to have been a compelling rationale for the increase. The government aimed to distribute any remaining cuts over all sectors, differentiating, to the degree possible, between higher and lower priority areas.

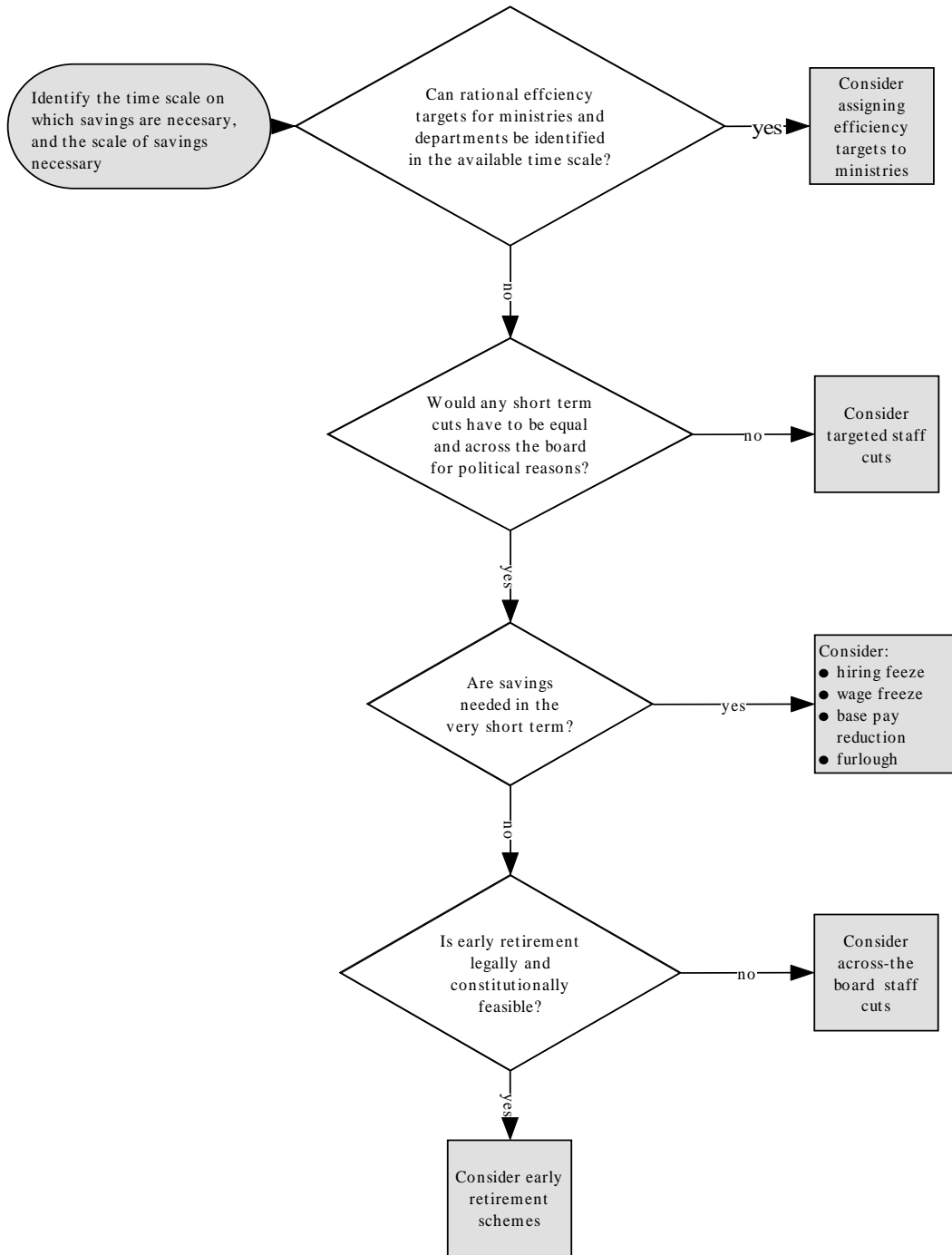
Employment reduction spreadsheet software was developed and provided to government in July 1999 to assist in prioritizing and setting realistic targets for net wage bill savings to be achieved and to assist individual Budget Users in sensibly targeting any employment reductions they needed to secure as part of this effort (Reid 1999). This was supplemented by a comprehensive World Bank review of institutional concerns (Public Expenditure and Institutional Review) that was followed by more detailed advice to Government on the advantages and risks posed by various options for achieving wage bill cuts (Dorotinsky 2000).

Decision trees used

The implicit decision tree used is set out below. It begins with the requirement to identify the time scales on which efficiency savings are necessary, and the scale of savings required. It supports decisions concerning:

- Assigning efficiency targets to ministries
- Using targeted staff cuts
- Utilizing hiring freezes, wage freezes, base pay cuts and furloughs
- Considering across-the-board staff cuts
- Early retirement schemes.

Decision tree 2 Identifying least damaging efficiency savings



Sources: Authors, derived from (Dorotinsky 2000)

Increasing Government Effectiveness

Mainstream Ministry/agency-level functional reviews

Key elements of the process

Typically, these reviews start with the identification of the key central Ministry/agency with responsibility for management of the program of functional reviews.. The targets of these reviews are ministries/agencies, **and** the significant programs for which they are responsible. There is no clear pattern in how candidates are identified: in some cases, encouragement and incentives are provided for volunteers to step forward; in others, a rolling program covering all ministries/agencies is imposed and managed by the center.

Since these reviews target both organizations and programs, they are particularly technically complex, and there are two broad approaches for developing the expertise necessary to sustain them. In many cases, sometimes with donor support, external consultants are used. In other settings, multi-agency teams are brought together specifically for the purpose of the review, provided with necessary frameworks and orientation by the responsible central agency, and then dissolved.

The general steps are:

1. Obtain agreement to the methodology developed by the responsible central government ministry/agency from the ministry/agency to be reviewed, and from all consultants/multi-agency teams that are to work on the reviews.
2. Facilitate extensive discussion on the review methodology.
3. Confirm that all parties understand governmental priorities as expressed in the program.
4. Disaggregate the functions that the agency undertakes in relation to this program:
 - 4.1 Policy functions;
 - 4.2 Co-ordination, supervision and performance monitoring functions;
 - 4.3 Service delivery functions;
 - 4.4 Support functions; and
 - 4.5 Regulatory functions.
5. Review those functions with a view to shedding services that can be stopped, reducing the volume or quality of services that cannot be stopped, and determining the resultant basic list of necessary functions:
 - 5.1 Those required for protecting public safety;
 - 5.2 Where there is a strong demand for the function to continue;
 - 5.3 Where the function supports other governmental priorities;
 - 5.4 Where national or international law or the constitution require the function
 - 5.5 Where the Government priorities cannot be achieved through regulation, taxation, transfers to subnational government, or subsidies.
6. Determine the operating environment that is most appropriate for those necessary functions:
 - 6.1 Inherently governmental;
 - 6.2 Devolved or decentralized;
 - 6.3 Contracted from the private or not-for-profit sectors;
 - 6.4 Left to the private or not-for-profit sectors.

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7. Structure the 'inherently governmental' environment in more detail by recommending that functions are allocated to:
 - 7.1 a core ministry; or
 - 7.2 statutory commission or independent regulator; or
 - 7.3 supervised body or executing agency; or
 - 7.4 state-owned enterprise or trading body.
8. Provide guidance on the internal structure of public sector organizations – indicating:
 - 8.1 whether functions should be located in a common department
 - 8.2 whether departments' divisions need restructuring; and
 - 8.3 whether managerial responsibilities are balanced and sustainable.
9. Conduct open workshop to discuss findings.
10. Prepare final report with identification of priorities for implementation.
11. Wide dissemination of the review findings and recommendations.
12. Develop an implementation plan that defines:
 - 12.1 main tasks to be completed, including redundancies and redeployments
 - 12.2 likely resource requirements to implement review
 - 12.3 legislative requirements to support the review
 - 12.4 allocation of implementation tasks to designated managers
 - 12.5 project management arrangements
 - 12.6 change management program with key activities (workshops, press releases, etc.) identified.

Decision trees used

The methodology for mainstream Ministry/agency-level functional reviews is by far the most technically complex of the three reviews considered here. This is because the reviews are seeking to suggest improvements both in the activities that are undertaken and in the organizational arrangements that undertake them.

Four decision trees are used within these reviews. The first stage is generally to disaggregate the functions that ministries/agencies perform and review them with a view to shedding services that can be stopped, reducing the volume or quality of services that cannot be stopped, and determining the basic list of necessary functions that are to continue to be provided.

In breaking down the functions into discrete components, generally the typology employed is along the lines of that suggested by (Bannock Consulting 1999) for Latvia:

1. Policy functions;
2. Co-ordination, supervision and performance monitoring functions;
3. Service delivery functions;
4. Support functions; and
5. Regulatory functions.

(Bannock Consulting 1999) provides a useful summary of the functions that public sector bodies undertake and that should be distinguished prior to reviewing organizational form:

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1. **Policy functions:** such as strategic planning, legal drafting, development of performance contracts, minimum standards, norms, policy analysis and evaluation, forecasting. These functions tend to be regarded as 'inherently governmental' and requiring specialist skills, and are usually provided by core ministries within central government.
2. **Co-ordination, supervision and performance monitoring functions:** such as coordinating relationships between different bodies, monitoring the performance of subsidiary bodies, facilitating and enabling subsidiary bodies to reach their performance targets. These functions also tend to be regarded as 'inherently governmental' and undertaken by core ministries.
3. **Service delivery functions:** such as the provision of products or services to internal (other public bodies) or external (farmers, foresters, fishermen) customers. Service delivery is often provided outside of central government through contracting arrangements or by subnational government. When undertaken by central government this is normally performed by supervised bodies or executing agencies.
4. **Support functions:** such as financial management, human resources management, information systems, infrastructure, staff training, efficiency review and management audit; and secretarial services. These are increasingly contracted out except when regarded as inherently governmental for security or other reasons.
5. **Regulatory functions:** such as licensing, certification, permissions, accreditation, inspection, compliance, and financial audit. These functions are also often regarded as 'inherently governmental' and provided by statutory commissions and other arms-length bodies within central government. It is widely maintained that regulatory functions should be separated from those policy functions that determine the regulations, and service delivery functions that provide services to customers.

The axiom 'form follows function' was originally drawn from architecture (Louis 1956) but has now been firmly established as a managerial principle in the public sector. See for example (Audit Commission 1996; State Services Commission 1999). The key message is that it is important to reflect on the policy intentions and work out what government is trying to achieve before considering whether and how government should structure organizations to achieve those purposes.

There is, however, another principle implicit in the literature on this subject: "pragmatism determines practice". Whether or not the public sector should deliver services directly, there is little point in specifying an organizational option that cannot be sustained in practice.

Functions that are necessary are:

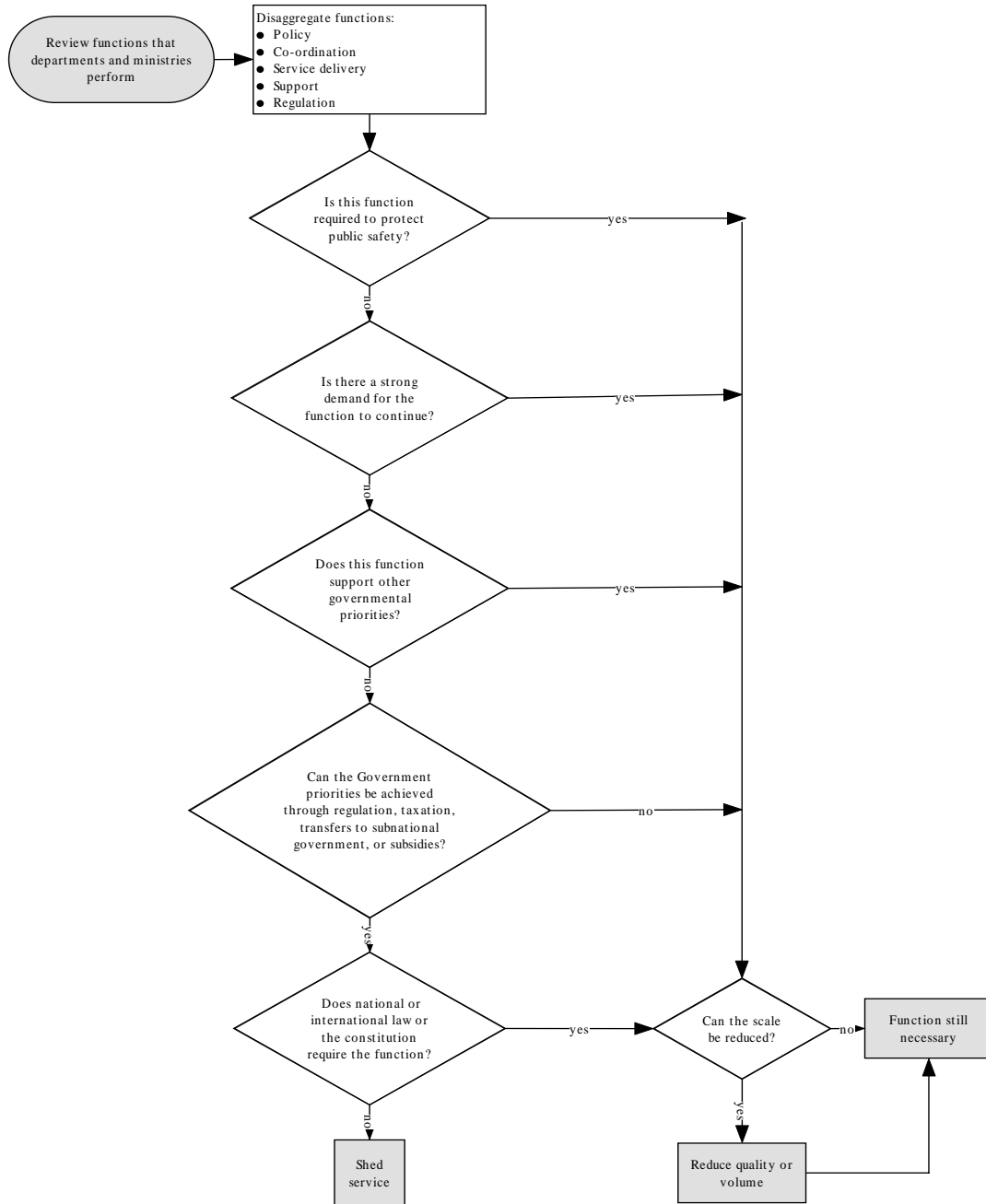
1. Those required for protecting public safety.
2. Where there is a strong demand for the function to continue.
3. Where the function supports other governmental priorities.
4. Where national or international law or the constitution require the function.
5. Where the Government priorities cannot be achieved through regulation, taxation, transfers to subnational government, or subsidies.

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Some assessment is also required of the scale of the function. It might be necessary, but is it critical to undertake so much of it?

In the event that functions are not considered to be still necessary, service shedding is the form of divestiture that occurs when government reduces the level of service or stops providing a service altogether. A private firm or non-profit organization may assume the service at no or nominal cost if there is a potential market. See (Government of Manitoba 2000).

Decision tree 3 Identifying necessary functions to be retained



Sources: Authors, derived from (Bannock Consulting 1999; Civil Service Reform Programme Steering Committee 1996a, b, c, d, e, f, g, h, i, j; István 2000; Wilkins 2001).

Determining how to provide the remaining functions

The fourth decision tree provides guidance on the operating environments for undertaking those necessary functions. It offers assistance in determining whether functions should be:

1. Regarded as inherently governmental and left at the central government level; or
2. Devolved or decentralized; or

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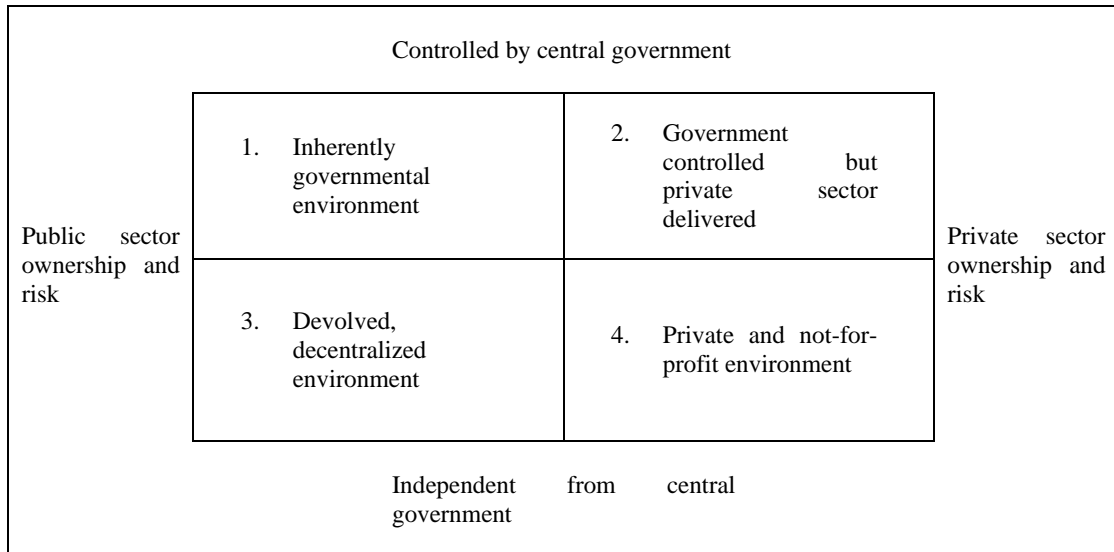
- 3. Contracted from the private or not-for-profit sectors; or
- 4. Left to the private or not-for-profit sectors.

Figure 2 sets out these four main environments in which governments might expect priority functions to be undertaken. The environments are determined by the degree to which they are controlled or independent from central government, and the degree to which the public sector owns the assets and explicitly assumes the risks of any business failure. The key assumptions are:

- 1. The choice of how functions are undertaken is not quite as simple as public or private, particularly in a federal setting.
- 2. Government priorities can be achieved through many mechanisms other than direct service delivery, including regulation, taxation, transfers to subnational government, and subsidies.

The first order question following the analysis of functions is which environment has, or could have, **the capability to undertake that function most effectively?**

Figure 3 Operating environments



There is a general assumption in favor of moving functions out of the top left quadrant, unless there are compelling reasons for leaving them there.

There is little that is inherently governmental because it can never be contracted out. Boston points out that practically any function can be delivered by the private sector and historically has been at one point or another. Mercenaries have been hired to fight wars and taxes have been collected by private organizations (Boston 1995). The assumptions that define which functions are 'inherently governmental' are of two sorts:

- 1. **Complexity and political sensitivity** - some functions are too intricate and sensitive to be contracted out.
- 2. **Pragmatism** – although a market *could* be created to undertake the function, this has not happened.

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In defining functions that are 'inherently governmental', Boston highlights the risks of contracting out policy advice to Ministers, pointing out that advisers on strictly commercial contracts are unlikely to be willing to go beyond the basic minimum terms of the contract, will not readily respond to changes in ministers, and will be difficult to monitor (Boston 1995). As Kettl notes: "It is one thing to hire outside concerns to supply goods and services. It is quite another to hire outside concerns to judge what the government ought to buy, how much it ought to pay, and how good the goods and services actually are. The more the government has contracted out its core functions, the more the government worsens its problem of building capacity" (Kettl 1993, p. 19). See also (Rhodes 1994).

More generally, the US Office of Management and Budget (OMB) suggest that an "inherently Governmental function" is one "that is so intimately related to the public interest as to mandate performance by Government employees." (Office of Management and Budget 1999, p. 2). These functions are defined as those that require either "the exercise of discretion in applying Government authority or the use of value judgment in making decisions for the Government."

OMB suggest that inherently Governmental functions normally fall into two categories:

1. Those that relate to the *act of governing* - the discretionary exercise of Government authority:
 - a. Criminal investigations, prosecutions and other judicial functions;
 - b. Management of Government programs requiring value judgments such as direction of the national defense, management and direction of the Armed Services;
 - c. Activities performed exclusively by military personnel who are subject to deployment in a combat, combat support or combat service support role;
 - d. Conduct of foreign relations;
 - e. Selection of program priorities;
 - f. Regulation of the use of space, oceans, navigable rivers and other natural resources;
 - g. Direction of intelligence and counter-intelligence operations;
 - h. Regulation of industry and commerce, including food and drugs.
2. Others that relate to *monetary transactions and entitlements*:
 - a. Tax collection and revenue disbursements;
 - b. Control of the Treasury accounts and money supply;
 - c. Administration of public trusts.

'Inherently governmental' functions are usually justified by reference to the complexity of the tasks, with fast-changing policies requiring more nuanced interpretations than can be achieved through contracts. In such circumstances, there is generally no effective market to purchase from as the services are not easily specified or priced. Arguably, central government also provides an environment in which staff know that their jobs are relatively secure and develop a loyalty to the government of the day. This is particularly important when budget funding might be unpredictable, as this tends to reduce public officials' overall performance (Manning, Mukherjee and Gokcekus 2000).

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In summary, functions are reported to be 'inherently governmental' when policy is complex and prone to sudden reversals, when there is no realistic market (non-contestable, non-specifiable services), when service failure would be critical, when even-handed regulation is required, and when "forgiveness" (and the preparedness on the part of Ministry staff to take a long-term perspective) is required for unpredictable funding.

The section below provides further details of when and how service provision can be undertaken through devolved or decentralized organizations, or through contracting from the private or not-for-profit sectors, and when responsibility for providing the service or not can be left to the private or not-for-profit sectors.

Devolving and decentralizing

When?

Strong arguments are made for the decentralization of key services, particularly education, health care, some infrastructure, provision of social safety nets, irrigation, water supply and sanitation, and natural resource management and environment. The arguments are nuanced but the claimed benefits include that decisions about public expenditure that are taken by a level of government closer, and more responsive, to a local constituency are more likely to reflect the demand for local services than similar decisions taken by a remote central government. A related benefit is that people are more willing to pay for services which they find to be responsive to their priorities, especially if they have been involved in the decision making process with regard to delivering the services (World Bank 2001b).

The principle of subsidiarity¹² carries a strong normative value. See for example (European Parliament Directorate-General for Research 2001). Nonetheless, decisions to pursue this course need to take into account local fiscal and administrative capacity to assume the functions and the accountability arrangements within which the function will be delivered. Otherwise, the risk, particularly in the area of decentralized social safety nets, may outweigh the benefits of a particular action at a particular time.

Change processes

(World Bank 2001b) provides details of the political, fiscal and administrative elements entailed in decentralization to subnational governments. Devolution or decentralization can be more than simple transfer of responsibility and funds. Partnerships can be established as **intergovernmental agreements** in which organizations at different levels of government contract with each other to deliver public programs or services. This collaborative arrangement is based on mutual interest and a clear understanding of objectives and terms. The partnership can be achieved through either shared services or devolution. **Shared services** involve a

¹² The Maastricht Treaty declared the principle of subsidiarity to be fundamental. This principle implies that public authorities do not take actions that can be done adequately and effectively by citizens and whereby the higher levels of member states, following the principle of gradation, act only when lower levels cannot do so satisfactorily.

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joint service agreement where two or more jurisdictions act together to plan, finance, and deliver a public service. **Devolution** involves an intergovernmental service accord where responsibilities are transferred between jurisdictions in return for payment for services delivered. See (Government of Manitoba 2000).

Private and not-for-profit environments

When?

There is some reasonable evidence that privatization offers significant benefits. 21 recent empirical studies are cited in (Shirley and Walsh 2000) and these generally find that most firms do better and all firms at least as well after privatization. None of the studies find that performance would be better had they not been privatized.

There are three key questions in considering moving functions to this environment:

1. Is there a market for these functions or services – or could one be created?
2. Can government tolerate the risk of closure?
3. Will any contingent liability be created or exacerbated?

The existence of a market for the services, or the possibility of creating a market, is generally regarded as more probable when policies are reasonably stable, when there is a prospect of raising revenue from fees and charges. The latter applies when the services are specifiable and contestable. See for example (Girishankar 1998).

The World Bank emphasizes privatization of state-owned enterprises following long experience with failed attempts at their reform. Few governments have been able to introduce – and keep in place – the large number of complex and demanding measures needed for effective public enterprise reforms. The Bank notes that whatever the theory, practice suggests that often inefficient but privileged public enterprises drained budgets, diverted resources from health and education, seriously damaged the health of the banking sector, and created obstacles for the development of the private sector (World Bank 2001c).

In principle, this environment is suitable only when government can tolerate the risk of closure or service failure. However, the literature on fiscal risk emphasizes that for central governments, privatization does not remove the potential contingent liability if explicit or implicit guarantees are offered. Accordingly, the initial risk assessment should not simply stop at the point of privatization. See (Polackova 1999a). Figure 5 sets out the principal risks identified by Polackova.

Figure 4 Sources of fiscal risk

	Direct liabilities <i>Predictable obligations that will arise in any event</i>	Contingent liabilities <i>Obligations triggered by a discrete but uncertain event</i>
<p>Explicit liabilities <i>Specific government obligations defined by law or contract - the government is legally mandated to settle such an obligation when it becomes due</i></p>	<ul style="list-style-type: none"> • Foreign and domestic sovereign debt • Budget expenditures—both in the current year and those legally binding over the long term (civil servant salaries and pensions) 	<ul style="list-style-type: none"> • Guarantees for borrowing and obligations of fiscal subnational governments and public or private entities (development banks) • Umbrella guarantees for various loans (mortgage loans, student loans, agriculture loans, small business loans) • Guarantees for trade and exchange rate risks • Guarantees for private investments • State insurance schemes (deposit insurance, private pension funds, crop insurance, flood insurance, war-risk insurance)
<p>Implicit liabilities <i>A moral obligation or expected burden for the government, not in the legal sense, but based on public expectations and political pressures</i></p>	<ul style="list-style-type: none"> • Future public pensions if not required by law • Social security schemes if not required by law • Future health care financing if not required by law • Future recurrent cost of public investments 	<ul style="list-style-type: none"> • Defaults of subnational governments and public or private entities on non-guaranteed debt and other obligations • Liability clean-up in entities being privatized • Bank failures (support beyond state insurance) • Failures of non-guaranteed pension funds, or other social security funds • Default of central bank on its obligations (foreign exchange contracts, currency defense) • Collapses due to sudden capital outflows • Environmental recovery, disaster relief, military financing

Note: These liabilities refer to fiscal authorities, not the central bank.

Source: (Polackova 1999b)

Change processes

Privatization is a process aimed at shifting functions, in whole or part, from government to the private sector when there is no continuing public policy reason to retain responsibility within government. **Divestiture** is a form of privatization involving the outright sale of government-owned assets or enterprises. After divestiture, government generally has no role in the financial support, management, regulation, or oversight of the divested activity. Consumers, through their buying

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choices, determine the ultimate viability of the company and the resulting profits allocated to shareholders. In selected cases, government may sell its assets or controlling interest in a service to a private company but protect the public interest through regulation. This is called **regulated** privatization. See (Government of Manitoba 2000).

There are two key areas of market design:

1. Ensuring appropriate regulation; and
2. Enforcing sound corporate governance.

In ensuring appropriate regulation, the challenge is that of dealing with potential monopoly practices, and determining when privatization without regulation can be achieved (when conditions for contestable markets exist); when regulated privatization is necessary; and when concession or franchising (allowing one private firm to operate as a regulated monopoly for a limited amount of time) is appropriate.

Corporate governance refers to the maintenance of "balance between economic and social goals and between individual and communal goals" (Dyck 2000; World Bank 2001a).

Employee Take Over (ETO) can be a useful device for privatization. This is an agreement between government and an employee group to have services formerly performed within government provided by the employees as private owners/operators. Prior to the employees resigning from public service to form an ETO company, a contract, lease, or license is negotiated with the government. The take-over group may be required to prepare a competitive proposal alongside private vendors to deliver services. Some organizations offer employees equity through profit sharing to recognize performance, while others sell or lease the operation outright to employees. Considerations in take-over bids include: comparison of cost-benefits with other options; status of the business as a new operation or going concern; valuation and ownership of assets; protection of the public interest through a government equity position; modification of conflict of interest, post-employment codes, and early departure/retirement incentives; union successor rights; and government assistance to employees in developing proposals. An ETO encourages employees to show entrepreneurship and can result in transfer of jobs to the private sector rather than simply job losses.

Government controlled but private sector delivered

When?

If government must continue to subsidize the function because citizens or businesses could not realistically pay full costs, or if the function is significant and government could not tolerate the risk that the market might cease to undertake the function in the future, then contracting out to the private or not-for-profit sectors is assumed to be preferable.

(Siegel 1999) provides an overview of recent research findings in the successes and limitations of external contracting. The general conclusions are that the most promising targets are those services with clear objectives for the provision of tangible

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services that can be measured and monitored. Contracting has apparently been less effective in human services and property assessment. In process terms, contracting is generally less successful following sole-source contracting.

Others present a more cautious view. They argue that contracting is more costly than initially apparent and that there are particular problems in contract specification (especially for complex services), and that the cost and difficulty of monitoring contract performance often cause governments to bring previously privatized work back in house. (Ballard and Warner 2000) argue that restructuring through improved labor-management cooperation can provide better quality service with fewer risks and greater social rewards. See also (Ballard and Warner 1999).

Change processes

Service provision under contract from private providers can be through **contracting-out** arrangements to procure goods or services used in delivering government programs from external organizations, usually the private sector. Government transfers the supply or operation of a function to a contractor for a specified period of time without relinquishing program responsibility and accountability. It remains the financier, has management and policy control over the type and quality of goods or services to be provided, and can replace contractors that do not perform up to the standards and service requirements of the contract negotiated. **Franchising** is a form of contracting whereby government confers the right or privilege to a private concern to conduct a business or sell a product or service in a specific geographic area according to prescribed terms and conditions. Franchises can be either exclusive (i.e., one producer) or inclusive (i.e., many producers), depending on the government's interest in leveraging the marketplace. **Licensing** is another variation through which government grants a license to a private concern to sell a product or service that would not otherwise be allowed outside the public domain. Under either scenario, consumers choose and pay directly for services, contractors pay government a franchise or license fee, and compliance with public purposes and regulations is enforced. Contracting works best for services commonly performed by private companies where outputs can be measured, complexity and contract monitoring are minimal, services can be unbundled, and user fees are charged.

Contracts can be with a **private, not-for-profit agency** - a formal agency volunteer program or a private non-profit service organization in which volunteers provide all or part of a service, either independently or under government direction. Government delegates responsibility to these organizations and provides grants or transfer payments. Other sources of funding are also accessed to deliver the service or perform a self-regulatory function.

Public/Private Partnerships are cooperative or joint ventures between two or more parties in the public and private sectors, built on the strength and expertise of each partner, where public needs are agreed upon upfront and are met through the appropriate allocation of resources, risks, and rewards. The contractual arrangement negotiated involves the private sector in the development, financing, ownership, and operation of a public facility, infrastructure, or service. Financial and human resources are pooled and responsibilities divided so that the partners' efforts

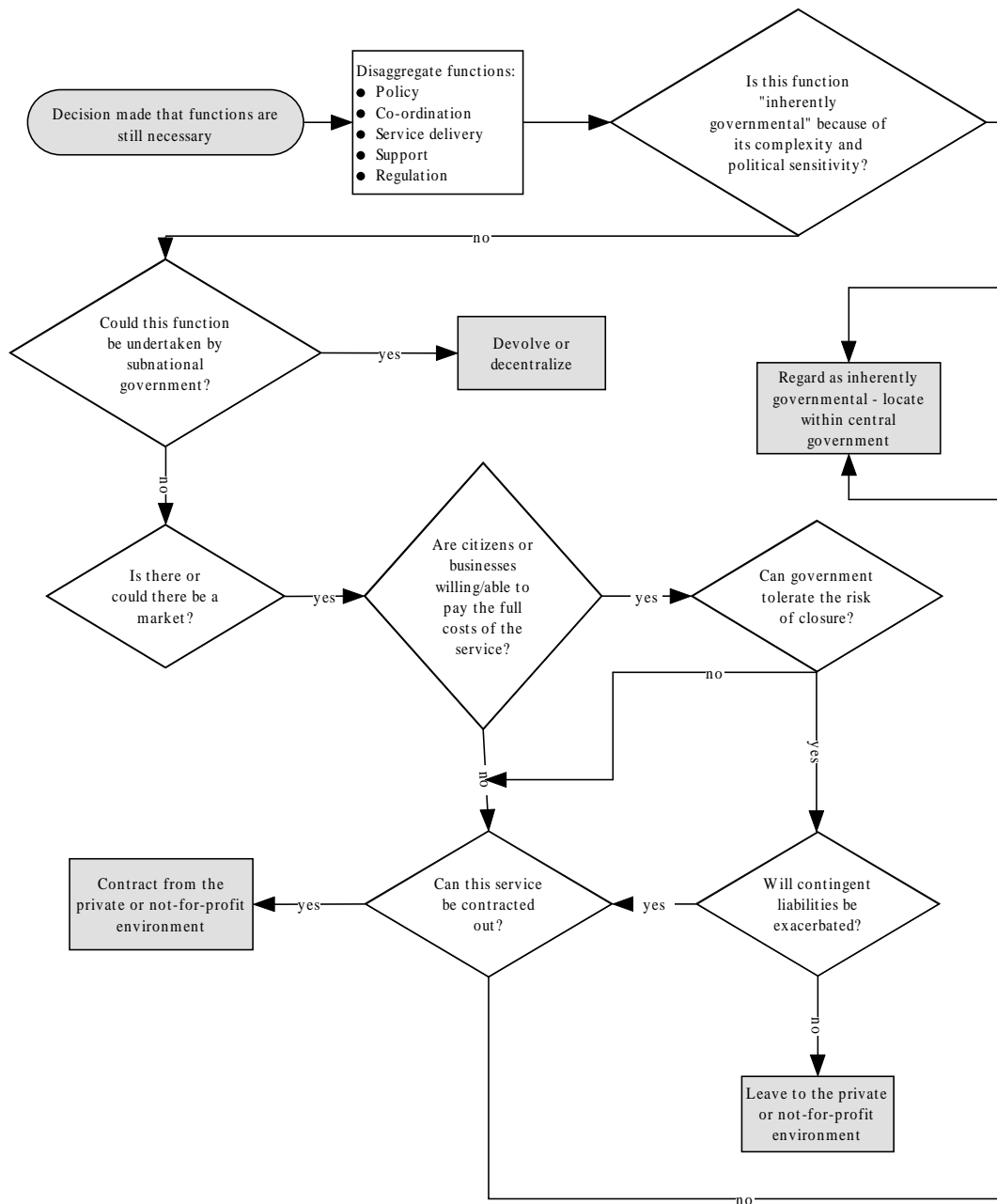
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complement each other. The partners typically share any income or losses in direct proportion to their investment. Such ventures differ from conventional service contracting in that the private partner usually makes substantial cash, at-risk, equity investment and government gains access to new revenue or service delivery capacity without having to pay the partner. Leasing and buy-out options can be used to facilitate public and private participation. Ultimately, an elected official or body is accountable to the public for decisions and results, while responsibility for achieving planned objectives is shared by the government and partners. (Thomas 1998) provides further details.

Box 2 Government Owned/Contractor Operated

Government Owned/Contractor Operated (GOCO) arrangements are a special case of such public/private partnerships. These are organizational and commercial arrangements where a government-owned facility is operated by a third party, usually a for-profit contractor. It is used when a government purpose-built facility managed by the private sector remains consistent with the public interest; when a government-owned facility has surplus capacity that a commercial operator can market to the private sector; when technology needs to be transferred to the private sector using private expertise; and as a transitional vehicle for a prospective operator who initially cannot afford to purchase the facility. Government's expectation is that access to private management expertise will increase efficiency, business volumes, and leasing or royalty revenues while lowering unit costs. The contractual relationship negotiated provides for adequate control and intervention mechanisms to protect government interests; structures exchanges of information, requests for service, performance criteria, and evaluations to reflect full costs, profit, and accountability; and transfers and manages assets consistent with government's long-term interests.

Decision tree 4 Selecting the appropriate operating environment



Sources: Authors, derived from (Bannock Consulting 1999; Civil Service Reform Programme Steering Committee 1996a, b, c, d, e, f, g, h, i, j; Defense Logistics Agency 2001, exhibit 3-6: flowchart for assessing which DAPS functions are appropriate for transfer; István 2000; Wilkins 2001). See Appendix 2: **Error! Reference source not found.**

Dealing with inherently governmental functions

Having allocated functions to operating environments, the fifth decision tree offers guidance on **how to structure the 'inherently governmental' environment**. The choices are whether 'inherently governmental' functions should be located in:

- a core ministry; or

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- statutory commission or independent regulator; or
- supervised body or executing agency; or
- state-owned enterprise or trading body.

Core ministries¹³ are best at managing sensitive policy areas when there is no realistic market and there is need for a margin of safety against service failure or a requirement to "forgive" unpredictable funding. Generally, ministries provide policy advice, analysis and evaluation. There is an implicit assumption that ministries are best suited to:

- Manage sensitive and volatile policy areas prone to sudden political reversals;
- Deliver services in which there is no realistic market (non-contestable) and which are hard to specify;
- Provide a margin of safety against service failure for very politically sensitive services – this includes the ability of core ministries to "forgive" unpredictable funding for operational activities, as secure civil service employment makes staff more prepared to judge government behavior over the longer term.

Ministries may exhibit bureaucratic tendencies, including command and control, hierarchy, uniformity, and conformance to rules and process : however the operational efficiency losses are considered a price worth paying for the margin of safety that they provide in delivering sensitive policy areas. Some challenges and opportunities facing ministries can be resolved within the current structure by modifying operations to perform in a more business-like way.

Supervised bodies or executing agencies¹⁴ are suited for policy areas that are prone to rapid adjustments and where there is no realistic market. These bodies and agencies deliver services where the public sector has a comparative advantage, but need to be placed in a clear accountability framework to a particular Ministry. They tend to be the vehicle of choice for:

- Policy areas prone to adjustment but not dramatic reversals – for example foreign affairs responsibilities are rarely located in an agency, while social security often is; and
- Delivering services in which there is no market (non-contestable) but where the output required is relatively specifiable.

¹³ Ministries are in a legal or constitutional sense indistinguishable from the state. They often have no specific legislative basis and their assets are the general property of the state. Their functions and objectives are multi-purpose, complex tasks, traditionally defined by legislation (Continental European traditions) or determined incrementally by Cabinet (UK and other Anglophone traditions). Their source of funding is almost entirely the state budget and they usually have nil or very minor revenue earnings. As they have no corporate or legal identity separate from the state, they have generally no legal competence to enter into corporate contractual relationships with suppliers.

¹⁴ Executing agencies reporting to Ministries (or reporting to Ministers but under the day-to-day supervision of a Ministry) are often indistinguishable from the state in the legal or constitutional sense. However, the relevant Minister generally defines their objectives (perhaps in a framework agreement) and their source of funding can include some revenue earnings. Executing agencies also rarely have legal competence to enter into contractual relationships with suppliers.

Box 3 Canadian Special Operating Agencies

Canadian Special Operating Agencies are a particular example of supervised bodies or executing agencies. SOAs exist along an organizational continuum between a government department and a state-owned corporation. Candidates can be direct public services, internal services to government, science and technology services, or regulatory and enforcement programs. Government delegates service delivery to a designated agency operating at arm's length from mainstream government. The agency remains accountable for results to governing bodies and may have an advisory board comprised of key stakeholders to provide guidance on strategic management. SOAs are distinguished from conventional departmental structures by: a clear mandate confirmed with stakeholders and made public in an operating charter; the requirement to examine becoming an optional rather than mandatory service provider; an accrual basis of accounting, usually applied outside the government's consolidated fund; access to financing and investing supported by a multi-year business plan; full costing and pricing of services, with a view toward financial self-sufficiency; and flexible staffing and continuity in labor relations.

Statutory commissions and independent regulators are best suited for functions that fall within a stable policy environment and for regulatory services. Agencies are "statutory commissions" when that they have a well-defined separate legislative existence. Their objectives are often enshrined in a charter, and their functions are defined by legislation in addition to any powers of direction held by the Minister. They may also be non-asset owning (legally distinct but unable to own assets) or asset owning. They can be budget dependent (subvented) or collect significant revenue earnings. They can also have legal competence to enter into contractual relationships. Such bodies tend to be established for regulatory purposes, although in some presidential systems they can also be service providers.

Statutory commissions provide arms length arrangements when checks and balances are required.

Trading bodies can provide functions when the policy environment is stable and there is scope for raising revenue from fees and charges. Trading bodies also have a separate legislative existence. If established under commercial law, then articles of association define their charter and functions. They can be budget dependent, subsidized, or enjoy significant revenue earnings. Trading bodies generally have full legal competence to enter into contractual relationships – they can assume corporate liability and can be sued. Trading bodies provide services that can be operated following private sector models.

Utilities for producing, transmitting, delivering, and furnishing water, electricity, gas, or steam heat; conveying persons or goods; and collecting and disposing of sewage, solid waste, and refuse are the most common examples. A utility is often a monopoly but is expected to apply business-like practices and consider market forces, incentives, and mechanisms to improve service delivery, reduce costs, and protect the public interest. User fees are commonly used to promote fairness, equity, and good management by shifting some or all program costs away from taxpayers to those who derive a direct benefit. While powers can be extended to manage assets, maintain separate accounts, collect charges, and enter into contracts and partnerships, the authority to fix rates and expand services continues to reside with governing bodies, including other orders of government. (Wright 1998) provides details.

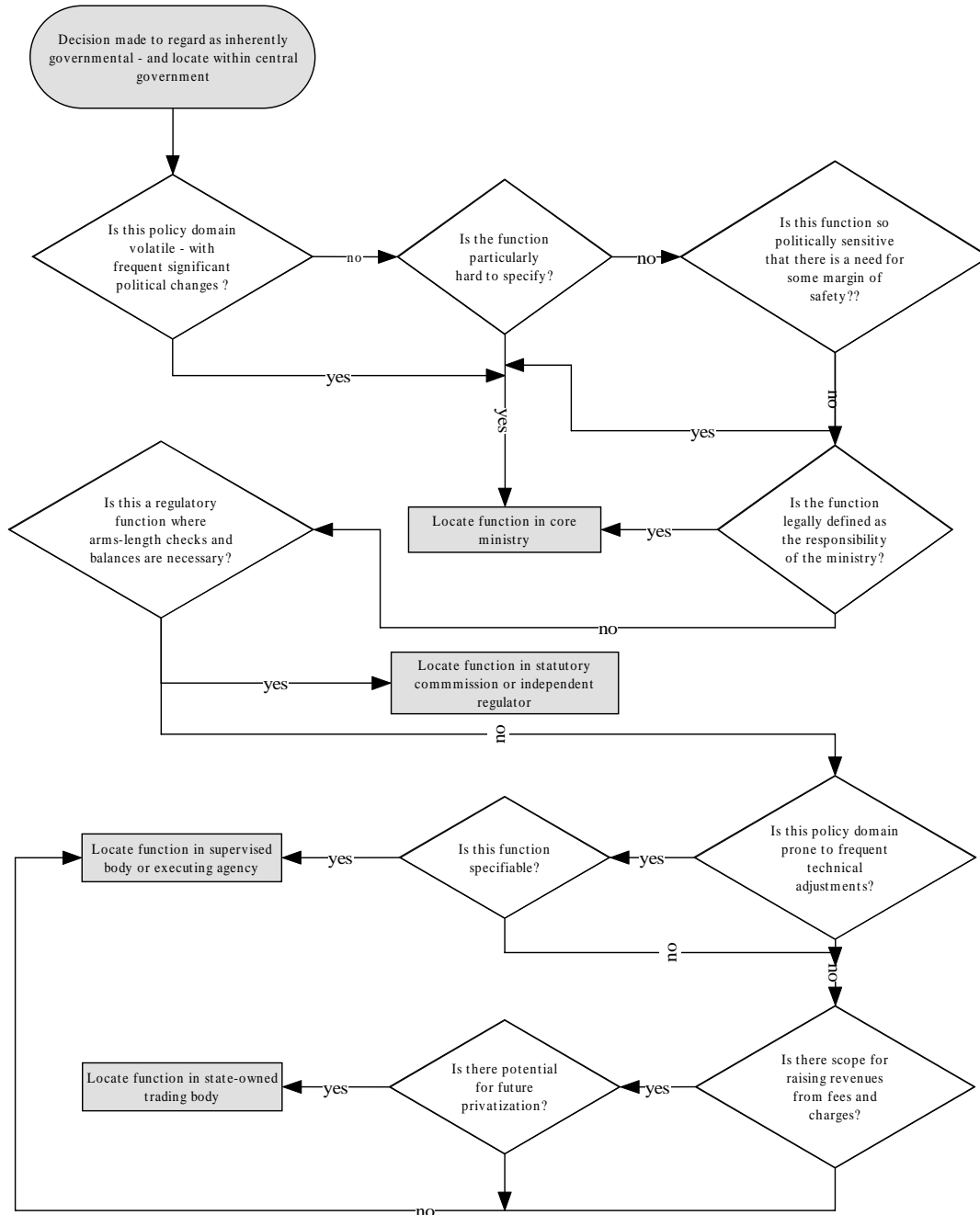
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There are sufficient cautionary lessons from experience in the management of state-owned enterprises to argue that they should only be used as transitional arrangements for candidates for privatization. Experience suggests that although a nationalized sector has, in principle, the advantage of easier coordination and the ability to fine-tune business practices to achieve social goals, in practice information asymmetries between the government and the firm and the difficulty in enforcing contracts leads to significant inefficiencies (Schmidt 1996; Shapiro and Willig 1990). In particular, public enterprises tend to operate with the security that the government will not allow them to go bankrupt and tend to offer them relatively soft budget constraints. Also, they tend to overinvest, because they can exert political power (Galal, Jones, Tandon and Vogelsang 1994).

Box 4 Crown Corporations

Canadian Crown Corporations are a special case of trading bodies. These are separate legal entities created by federal or provincial statute, generally with the intent of conducting revenue-producing, commercial activities for the public good. Crown corporation status represents the greatest degree of autonomy possible within the public sector. A Crown Corporation is normally a sizable agency that sets its own administrative policy, is financially self-sufficient, and has separate employer status. A board of directors, appointed in whole or part by government, is responsible for overall management and decision-making for the corporation. A Minister responsible answers in public and interprets the nature of the arm's-length relationship, consistent with legislation and the public interest.

Decision tree 5 Locating inherently governmental functions



Sources: Authors, derived from (Bannock Consulting 1999; Civil Service Reform Programme Steering Committee 1996a, b, c, d, e, f, g, h, i, j; István 2000; Wilkins 2001).

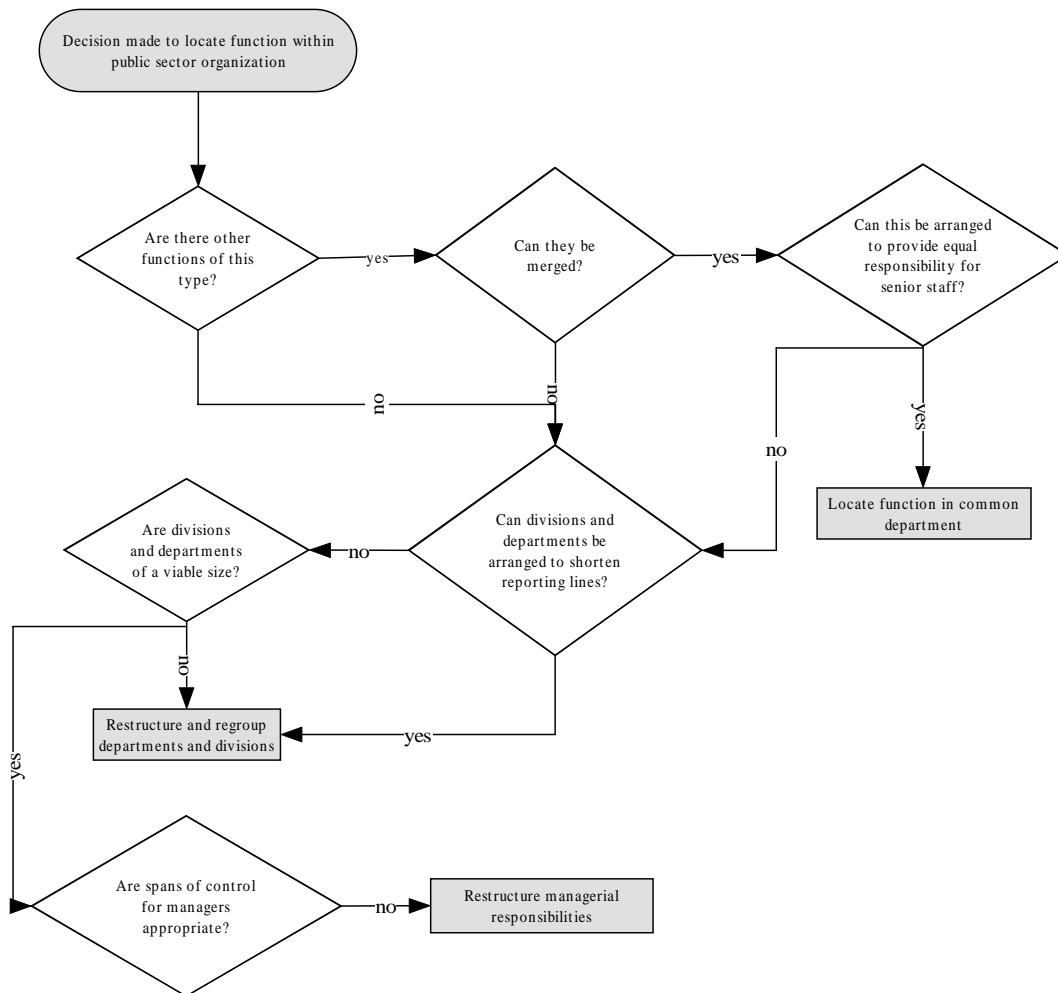
Following the proposal to transfer functions, the final stage is to **review the internal structure** of the ministry, statutory commission, supervised body, trading body and to determine whether there is a need for restructuring. The final decision tree provides guidance on the internal structure of public sector organizations. It assists in determining whether services should be located in a common department, whether departments or divisions need restructuring, and whether managerial responsibilities

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are balanced and sustainable. The following design principles would apply in making this determination.

1. Functions of the same type should be grouped together whenever possible to produce economies of scale and maximize synergies and common types of skills;
2. Support functions that enable the core functions of the organization to be performed should be separated from all other functions;
3. There should be equal responsibility for senior staff, either in terms of volume of workload or national importance of the function;
4. There should be clear and short reporting lines;
5. There should be viable sizes of divisions and departments (five or more experts to a division), three to five divisions in a department;
6. Different organizational units should perform different types of functions (policy, regulation etc);
7. Structures should take into account local history, culture and circumstances;
8. There should be optimum spans of command for managers;
9. There should be equitable workloads;
10. Structures should be compatible with international and local Law, and where there are conflicts these should be highlighted and options explored for amending legislation.

Decision tree 6 Structuring public sector organizations



Sources: Authors, derived from (Bannock Consulting 1999; Civil Service Reform Programme Steering Committee 1996a, b, c, d, e, f, g, h, i, j; István 2000; Wilkins 2001). See Appendix 2: *Error! Reference source not found.*

Rolling out mainstream Ministry/agency-level functional reviews

While the more upstream forms of review tend to stand alone, mainstream Ministry/agency-level functional reviews come in batches. So, for example, 'pure' policy or program reviews such as the Brazil – inventory of government programs and the Government of Canada – 1994 program review, were stand-alone. There was only one of them at one time. An upstream program and efficiency review such as the New Zealand – reviews of the State Sector, were also one of a kind.

By contrast, mainstream Ministry/agency-level functional reviews such as the Government of Canada – ongoing Alternative Service Delivery reviews, and the Fundamental Expenditure Reviews and the Better Quality Services and Best Value Reviews in the UK, are replicated many times over in different agencies and across different programs. The choice is whether to impose uniformity or to set a broad framework allowing different emphases to emerge in different reviews.

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The UK and Canada in their versions of these types of review have moved from a centrally driven model, in which selected programs, agencies and departments were identified as the targets for review, towards a more open model in which central guidelines are set out, but the details of review implementation are left with the agencies themselves. Arguably, this has been possible because of the discipline that was established by the initial, centrally driven program.

In Canada, an annual Alternative Service Delivery Plan covering three years is prepared by departments and submitted to Treasury Board for approval. This is one attempt to use existing planning and accountability mechanisms to maintain a continuous improvement approach to restructuring.

The consequence for the UK Better Quality Services Reviews is that all services and activities, including policy and headquarters functions, are reviewed over a five-year period. Each Department is committed to reviewing 60% of its activities in the next three years and 100% in the next five years. This is enforced by a plan agreed by the relevant Minister that shows how and when coverage will be completed. The plan must cover all subsidiary bodies such as Executive Agencies and other bodies with an annual budget of over £15 million. Monitoring results are passed to a special Cabinet Committee and assessed against each Department's review timetable.

Further discipline is maintained by the Departmental Public Service Agreements, which require each department to prepare its aim and objectives, with specific performance targets (H.M.Treasury 2000). Each Public Service Agreement includes targets for improving the efficiency or value for money of a key element of a department's work, and a statement of who is responsible for the delivery of these targets. Where targets are shared between two different departments, then this is identified and accountability arrangements are clearly specified.

1.4 A Methodology for Functional Reviews in the Russian Federation

Objectives

This section recommends a methodology for conducting functional reviews in Russia which is appropriate to present needs and circumstances over the short to medium-term; and which takes appropriate account of international experiences and lessons learned. Most importantly, it builds on the extensive experience gained through the first generation of functional reviews completed in the Russian Federation. The recommended approach is based on a model which we have earlier described in section 1.2 as **mainstream Ministry/agency-level functional reviews**.

Russian experience to date with functional reviews

Administrative reform was launched by President Putin in February 2003 by an internal order setting out the basic directions of administrative reform and instructing the Government, through the Ministry of Economic Development and Trade, to begin preparatory and analytical work on the reform priorities. One of the immediate priorities was the conducting of a high-level functional review of the federal public administration. In spring 2003, the Ministry of Economic Development and Trade undertook a first exercise to collect self-assessment questionnaires from all bodies of Federal executive power on their functions.

In Decree 824 (July 23, 2003), President Putin required the Government to establish an Administrative Reform Commission, chaired by Deputy Prime Minister Boris Alyoshin and supported by a new department in the Apparat of the Government, the Directorate for Administrative Reform.

The Commission reviewed 5,600 functions of the approximately 60 bodies of Federal executive power. By the Commission's meeting on 13 January, 2004, 4,000 functions had been reviewed; 800 had been identified as redundant; 250 had been found to duplicate other functions; and 500 had been found to be being carried out on too broad a scale.

In March 2004, President Putin launched a major restructuring of the Federal Government. This new structure, implemented by September 2004, reduced the number of different types of government bodies from 6 to 3 (Ministries, Services and Agencies); the number of Ministries from 23 to 18; the number of Deputy Prime Ministers from 6 to 1; and the size of the Cabinet of Ministers from 31 to 20; while the number of government bodies increased from 54 to 70. Importantly, a hierarchy was introduced within the Federal Government, with many Services and all Agencies placed within a direct accountability relationship to a specific Ministry and Minister. With respect to these subordinate Services and Agencies, the Minister will exercise the following role:

1. Approves the annual plan, targets and performance indicators;
2. Submits budget and staffing proposals to the Ministry of Finance during the budget formulation exercise;

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3. Recommends to the Russian Federation Government candidates for Service and Agency Director posts; and
4. Appoints and dismisses the Deputy Directors of Services and Agencies and the Territorial Division Heads of Services and Agencies (in consultation with the respective Director).

Following this restructuring, Deputy Prime Minister Zhukov was made responsible for the Administrative Reform Commission; and a Program for Administrative Reform was produced over the following twelve months. The process of government restructuring, informed by functional reviews, is reasonably advanced in the Russian Federation at Federal level as concerns the overall structure of government.. Over the short to medium-term, it is anticipated that a second generation of functional reviews will need to be undertaken to improve the effectiveness and efficiency of individual ministries (together with their subordinated services and agencies) at federal level, but also at the level of the overall structure of government for the subjects of the Federation and municipalities.

Recommended approach : Mainstream Ministry/agency-level functional reviews

Mainstream Ministry/agency-level functional reviews are designed to achieve outcomes such as the restructuring or elimination of some Government programs and activities, and the restructuring of entire Government Ministries and agencies. The reviews focus on identifying core governmental functions, eliminating duplication, and consolidating and/or merging similar services from different Ministries or departments.

Mainstream Ministry/agency-level functional reviews are usually developed and implemented to meet one or more of the following objectives:

- (i) identifying **expenditure reductions**;
- (ii) **reducing the size and scope of Government** through rationalizing Ministry structures; and through identifying functions and services which may be commercialized, spun off, decentralized to lower tiers of Government, or simply eliminated;
- (iii) **securing increased efficiency** in Ministries' performance;
- (iv) **securing increased effectiveness** in Ministries' performance through strengthening the focus of individual civil servants on the achievement of key Government goals and objectives (as set out in the Government's work program); and strengthening the responsibility and accountability framework within which civil servants operate.

Implementation of such a functional review program should increase the focus on achieving priority Government goals and objectives, while allowing significant expenditure reductions in many lower priority areas without sacrificing efficiency and effectiveness in service delivery. In fact, such reviews often identify the need for expenditure increases in priority areas.

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Such a program at the federal level in Russia would be undertaken at the level of an individual Ministry, including all its services, agencies and other subordinated organizational units and budget entities. Reviews would also be undertaken at the level of subjects of the Federation and municipalities. Such reviews would be conducted in accordance with explicit top-down criteria established either by the Commission on Administrative Reform or by central government bodies or Ministries acting on behalf of the Commission, such as the Apparat of the Government, the Ministry of Economic Development and Trade, and the Ministry of Finance. As outlined in the discussion above, these reviews would allow for significant restructuring of present Ministerial structures, with some functions/entities identified for being spun off or commercialized, some for decentralized to other tiers of Government, some transferred to the not-for-profit sector, and some simply eliminated.

Links with performance based budgeting and public expenditure reviews

Such a functional review program would build on the efforts under the budget reform program to secure expenditure reductions, increase efficiency and effectiveness, and move to performance-based budgeting.

Two sequencing options for linking the annual performance budget reports and functional reviews include:

1. complete the functional review of a Ministry and its subordinate structures in time for the results to be available as an input to the Ministry's next performance budget report; or
2. complete the functional review in response to the Ministry's draft performance budget report and thereby provide a means by which the Commission on Administrative Reform could challenge, validate and test the Ministry's proposals before moving to the formal budget allocation stage of the performance budgeting exercise for the year in question.

In either case, the results of the functional review would first be used to provide assurance to central Government ministries, such as the Apparat of Government, the Ministry of Economic Development and Trade, and the Ministry of Finance that the determined budget ceiling for the Ministry in question could be achieved without jeopardizing achievement of key Government priorities and objectives assigned to that Ministry. Secondly, the exercise could be used by the management of the Ministry in question to identify the most appropriate internal arrangements for prioritizing its functions in the context of the Government's overall objectives and goals and the ministry's budget ceiling and specific goals.

Key elements of the recommended functional review approach : methodology & process

The general steps to designing and launching such a functional review were set out in section 1.2. These will include establishing terms of reference for the ministry and its subordinate organizations, acceptable both to key central Government bodies such as the Commission on Administrative Reform and agencies acting on its behalf such as the Apparat of the Government, the Ministry of Economic Development and Trade, the Ministry of Finance; as well as being broadly acceptable to management of the

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Ministry itself. This process would be accompanied by a top-down confirmation of the key priority objectives and goals for the Ministry overall as reflected in the Government's work program.

The next step is to establish a Task Force, comprising internal Ministry staff, possibly staff from the central agencies of the Ministry of Economic Development and Trade, the Ministry of Finance, and/or the Apparat of the Government, and, in most cases, external consultants (both international and local). The accountability framework for the Task Force would be established, together with the formal reporting requirements, a timetable for completion of the work, including the preparation, submission, review approval, publication, and dissemination of the review's findings (normally set out in a draft final, then final, report). The accountability framework could comprise a Steering Committee, which again could include representatives from the Ministry itself (management and staff), together with representatives from the interested central Government agencies. Appropriate tender and contracting arrangements for the consultants would also need to be completed. Experience from other countries indicates that a period of **six months** from exercise launch through to submission of final report is likely to be required.

The first stage of the review work itself is generally to **disaggregate the functions** that ministries perform and review them with a view to shedding services that can be stopped, reducing the volume or quality of services that cannot be stopped, and determining the basic list of necessary functions. Although clearly this task must be open and participatory, experience suggests that defining ministries' current core tasks in the context of overall government goals is primarily the responsibility of current management. Excessive reflection at this point can bog down the review in long discussions about the nature of existing tasks.

Completing the review : The final workshop and dissemination of the implementation plan

Following completion of the review work, there would normally be a **workshop to finalize and approve the implementation plan**. This implementation plan would:

1. demonstrate the required linkages with the government's budget cycle;
2. show costs for implementing the review's recommendations (including further consulting support, change management, training, IT), and indicate the expected savings, if any;
3. identify which legislative changes are required;
4. provide for appropriate staff consultation on the implementation issues, including the timetable, with a view to raising staff support; and
5. identify monitoring measures, approaches and methodology to be used to ensure that the expected outcomes can be assessed, along with the associated costs and savings.

Short-term next steps: Implementation of pilot functional reviews

To begin the process, a short-term action plan for pilot "mainstream" functional reviews, developed in the context of the work of the Commission on Administrative Reform, could be implemented. The Russian Federation Government would need to secure the internal budget resources and any additional external donor support

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required to cover the costs of the pilots and make appropriate international expertise available.. Provision for any ongoing rolling program would need to be discussed within the context of the financing of the Program for Administrative Reform.

Although the initial pilot functional reviews may not secure all the desired outcomes for such reviews, they will importantly contribute to more effective future reviews. Experience has shown that, while expectations around functional reviews are routinely high, results often disappoint. It must therefore be accepted from the outset that some exercises will lead to more satisfactory results than others. The process should be viewed as iterative and one that will deliver increasing benefits over time in terms of efficiency and effectiveness and in focusing Ministries/agencies on achieving the Government's goals and priorities. Such exercises can also play an important role in promoting changes in values and behaviors of individual civil servants and will thereby contribute to the Russian Federation Government's overall objectives in modernizing the public administration through its administrative, budget and civil service reforms.

Finally, a successful functional reform program at the federal level could stimulate acceptance of similar approaches **at the level of individual regional administrations and municipalities**, where pilot reviews could also be undertaken. This is particularly important since most service delivery responsibilities in key national expenditure areas, such as education, health and social assistance, are undertaken at the lower tiers of Government within the Russian Federation. Possibilities exist for joint analysis or even joint reviews. For example, a functional review of the Ministry of Education at the federal level could inform and be informed by functional reviews of education service delivery in a number of regions and municipalities.

Institutionalizing the Results

Many functional review exercises have produced excellent assessments and elaborate implementation plans, only to find the proposals delayed or derailed during the approval and implementation phases. The Russian Federation program has already achieved some significant successes in identifying redundant and duplicate functions. The specification of each ministry/agency's "reglements" (for each organizational unit, its mission, objectives, and operating procedures and the roles/responsibilities of each required position) will further contribute to entrenching the changes. However, a number of measures, drawn from international experience, may be worth considering in the medium term.

1. The results must be integrated within the emerging performance-oriented budget system and linked to any strategic planning methodologies that emerge;
2. A central organization needs to be assigned permanent responsibility for ensuring that the structure of government optimally delivers its core functions and policy priorities;
3. Human resources management capacity, particularly in the area of redeployment, needs to be strengthened both at the center and in ministries/agencies;
4. Different, more complex approaches (e.g., horizontal functional reviews of a similar function across multiple organizations; vertical reviews of a similar function at different government levels) can be developed as experience is gained; and

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5. The current efforts are evaluated to inform future restructuring initiatives.

Finally, a lesson learned from Canada's program review experience may be worth considering with respect to how to overcome vested interests and opposition within the civil service. The Canadian program review exercise succeeded where past efforts had failed in part because it explicitly provided for the broad participation of civil service senior managers in the review process; and was based deliberately on a flexible design that allowed each department to determine how top-down or bottom-up their process should be. At the CIDA-funded October 2003 Moscow conference on administrative reform, organized by the Ministry of Economic Development and Trade and the Higher School of Economics with the World Bank, the former Clerk of Canada's Privy Council emphasized how mobilizing and "trusting the knowledge inside" had been a critical success factor for Canada's program review.

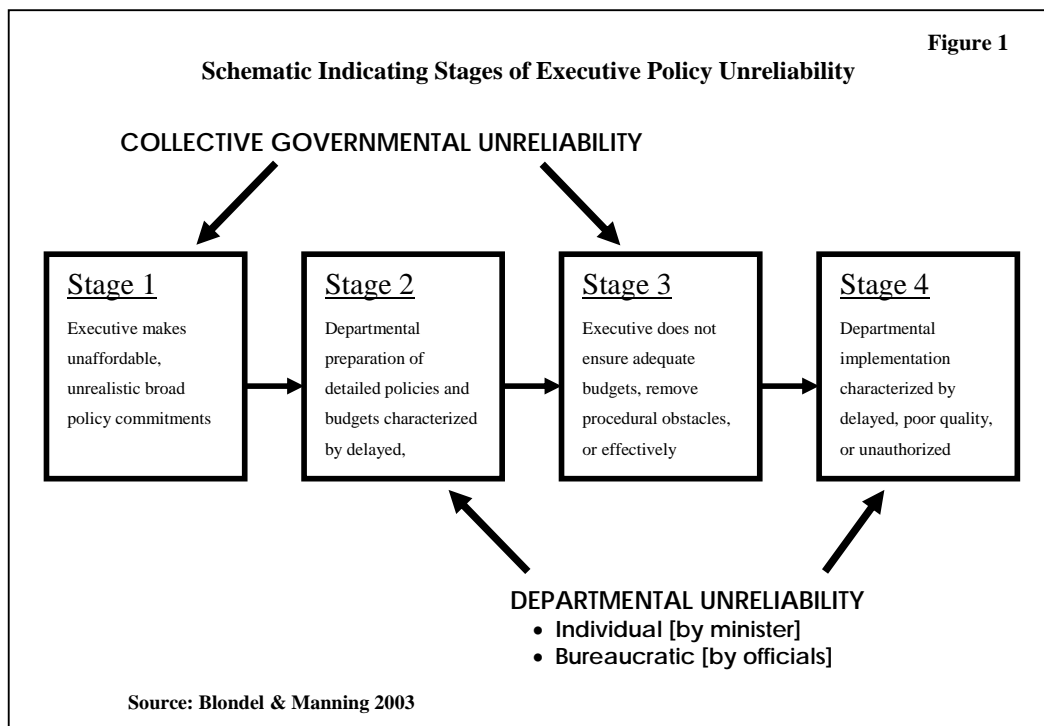
II STRENGTHENING GOVERNMENT PERFORMANCE

The previous chapter highlights the critical importance of getting the architecture of government right. Any public administration characterized by unwieldy structures, outmoded mandates and superfluous functions will not be successful. However, restructuring by itself does not guarantee effective, efficient, responsive government. As outlined in (Manning and Parison 2004), public expenditure and civil service reforms generally accompany and reinforce government restructuring initiatives.

In this chapter, it will be further argued that even this extensive package of reforms may not be sufficient and that **governments must additionally strengthen policy and performance management**. Governments are judged, to a significant degree, by how well they articulate and reliably deliver their policy commitments.

Policy is arguably the primary output of government...All too often, well-intentioned governments find their well-publicized policy commitments to be unaffordable, unrealistic, stalled or superseded by the crisis of the day, or swamped by a multitude of unanticipated ministry priorities. Ultimately, they are forced to break their promises. (Evans & Manning, 2003)

The schematic below illustrates how government promise breaking, or policy unreliability¹⁵, can occur at four stages of the policy process.



¹⁵ Policy unreliability is defined as “The degree to which the broad policy commitments of the executive are not implemented, or only partially implemented, within a reasonable timescale.” (Blondel & Manning 2003)

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Given the adverse consequences of breaking policy promises¹⁶, many governments invest considerable time and resources in strengthening the two inter-related systems that support policy and performance management:

- *planning systems*, which attempt to maximize the government's capacity to implement its desired policy objectives within an affordable fiscal plan; and
- *accountability systems*, which attempt to ensure that expected and actual performance is clearly articulated at all organizational levels and achieved in the most effective, efficient and economical manner possible.

Efforts to strengthen planning and accountability typically focus on the supporting processes and structures underpinning these systems.

Table 1 Key Processes & Structures of Planning & Accountability Systems

Processes
1. Integrated Policy and Fiscal Planning
2. Integrated Performance Management
Structures
3. Executive Decision-Making Bodies
4. Central Agencies

To illustrate different, but generally successful policy and performance management approaches, four case studies (detailed versions are set out in the accompanying background paper) are referenced: Canada (both the Federal and the Province of Ontario governments), Lithuania, and New Zealand. The paper avoids deliberations on the relative merits of theoretical models or an extensive critique of the case examples; instead, it focuses on the actual tools, such as directives, manuals, methodologies, and reports, used by practitioners in these governments.

2.1 Integrated Policy and Fiscal Planning

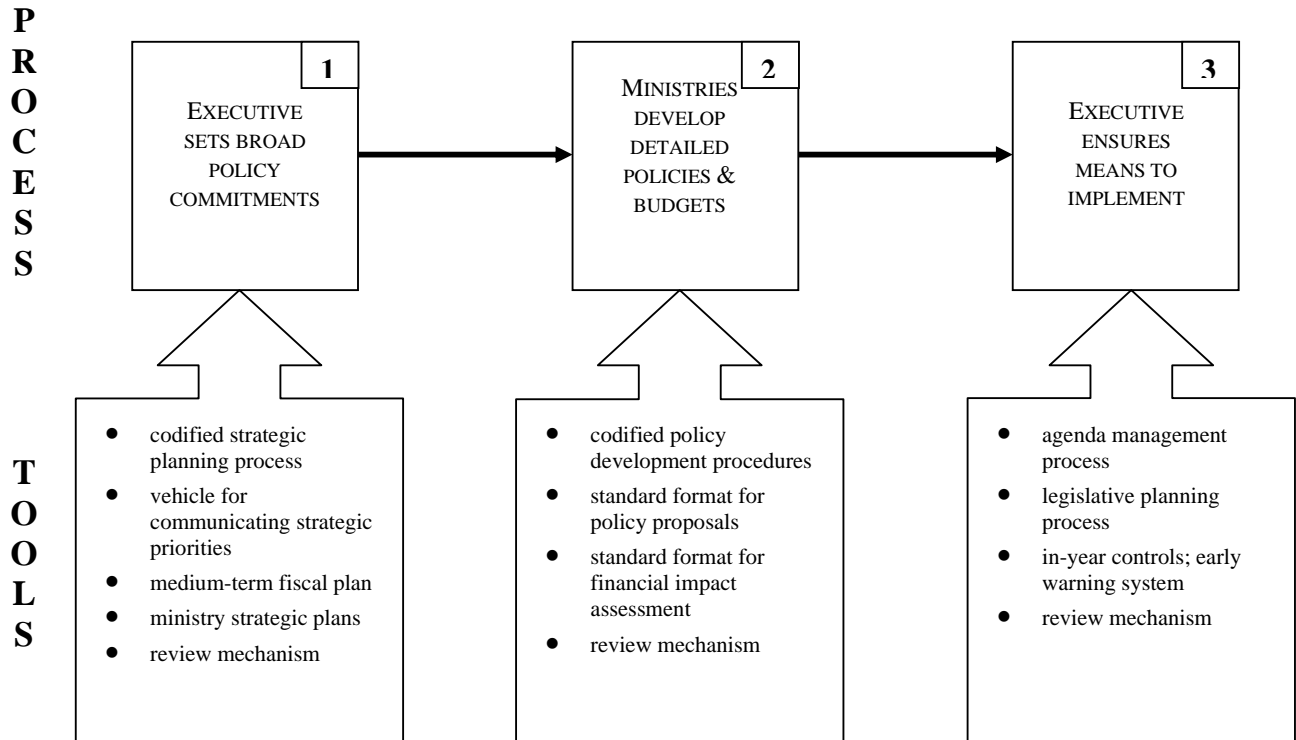
A hallmark of a successful planning process is effective linkages throughout all stages of policy and budget formulation; i.e., integrated policy and fiscal planning. A brilliantly conceived policy strategy is of minimal value if the necessary funds cannot be provided for the foreseeable future. Equally, a budget approach that increases or decreases all spending for all programs by a similar percentage year after year will hinder achievement of the government's policy priorities.

Failure to link policy, planning and budgeting may be the single most important factor contributing to poor budgeting outcomes at the macro, strategic and operational levels in developing countries...Integrated policy, planning and budgeting is fundamentally about having expenditure programs that are driven by policy priorities and disciplined by budget realities. The challenge is to manage the tensions between "needs" and "availabilities" more effectively.
(World Bank Public Expenditure Management Handbook 1998)

¹⁶ World Bank research has indicated that businesses are less likely to comply with policy changes and public servants are less likely to implement policy changes where governments have a poor track record in delivering approved policies and budgets (Evans & Manning 2003).

In this section, the planning tools used at the first three stages of the policy process will be reviewed. The fourth stage, policy implementation, will be covered in the next section on performance management.

Figure 2



Stage 1 – Executive Sets Broad Policy Commitments

All elected governments assume power with a pre-established set of policy commitments derived from the campaign platform. Some governments are further bound to promises elaborated in coalition agreements or government programs approved on accession. Once in power, new governments begin the task of assigning ministries responsibility for translating these commitments into concrete policies and programs. At the same time, the Ministry of Finance will begin formulating a medium-term macroeconomic strategy in preparation for the government’s first budget. If these two planning processes occur in isolation, the prospects for the government achieving its goals diminish significantly. Critical success factors underpinning effective planning at this stage include:

- a high-level, decision-making forum exists within which the necessary policy and fiscal trade-offs can be made;
- consistency and coherence are reflected in the key public vehicles through which the government announces its policy and financial goals;
- both policy and fiscal planning horizons are, at least, medium term; and

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- an approved, publicly released document links the ministry's strategic plan to its budget.

The chart below contains examples of planning tools used by the four case study governments (see detailed case studies for actual examples and web links).

Table 2 – High-Level Planning Tools

Government	Public Vehicle	High-Level Forum*	Ministry Plan
Canada	-Throne Speech ¹⁷ -Budget Speech	-Cabinet Retreat ¹⁸ -Priorities & Planning Committee	Report on Plans & Priorities
Ontario	-Throne Speech -Budget Speech	-Cabinet Retreat -Priorities & Planning Committee	Business Plan
Lithuania	-Prime Minister's Statement	-Strategic Planning Committee	Strategic Activity Plan
New Zealand	-Throne Speech -Prime Minister's Speech -Budget Policy Statement -Budget Speech	-Policy Committee	Statement of Intent

*chaired by the Head of Government (Prime Minister)

Stage 2 – Ministries Develop Detailed Policies and Budgets

Ministries prepare a range of policy, legal and financial instruments to deliver the government's policy commitments. Common examples include policy options papers, policy impact assessments, draft laws, draft regulations, budget proposals, program proposals, and financial impact assessments. Typically, ministers spend the majority of their decision-making time reviewing and approving these documents at regular cabinet and cabinet sub-committee meetings. If the material is of poor quality or presented in a manner that is difficult to understand, or if ministries chronically miss deadlines or walk in unsolicited initiatives to Cabinet, the quality of decision-making will suffer. Again, problems will arise if policy and fiscal deliberations are disconnected. Best practices at this stage include:

- codified procedures and standards exist to guide ministries in the preparation of material that succinctly provides decision makers with realistic options and clearly expresses the policy and fiscal impacts of these options;
- policy and financial discipline are exercised by ministries; i.e., they rarely bring forward unsolicited proposals; budget requests are realistic;
- central agencies ensure that the process is well-managed and provide a quality assurance role;
- policy and impact assessment instruments are used to precede and/or accompany the review of complex legal instruments; and

¹⁷ The "speech from the throne" (or throne speech) is the term used to describe the speech written by the Government, but delivered by the Head of State to Parliament to open a new session of Parliament and set out the government's priorities.

¹⁸ The term "Cabinet Retreat" refers to an extended (2-3 day) meeting of Cabinet, usually held away from the capital, to review critical issues such as policy priorities or budget strategy.

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- the policy and financial review processes are coordinated; although it is not unusual for governments to undertake these reviews separately, ultimate approval must be informed by both assessments.

Although the rigor of application varies over time, all four case study governments generally attempt to follow these best practices. In Lithuania's case, they are in the process of building such capacity and have recently introduced a policy and financial impact assessment manual and forms, strengthened the Chancellery's quality assurance role, and dramatically increased the realism of ministry budget requests (a sample of 9 programs revealed that the amount of budget requested exceeded the amount ultimately approved by just 7% in 2001 versus 47% in 1999).

Table 3 – Instruments for Detailed Development of Policy and Fiscal Initiatives

Government	Policy Instrument	Fiscal Assessment
Canada	Memorandum to Cabinet	Treasury Board Submission
Ontario	Cabinet Submission	Management Board Submission (business case)
Lithuania	Policy Impact Assessment	Fiscal Impact Assessment
New Zealand	Cabinet Paper	Treasury submission/business case

Stage 3 – Executive Ensures Means to Implement

Once a ministry has completed a policy proposal, the central agencies that oversee the policy and financial management processes on behalf of the government must ensure that procedural hurdles are anticipated and, wherever possible, avoided and that sufficient means are provided for effective implementation. Passive management of cabinet and cabinet committee agendas or failure to anticipate “veto points”¹⁹ can result in inordinate delays in policy approval and implementation. If financial shortfalls routinely occur, forcing in-year budget recalibrations, expected results will rarely be achieved.

Symptoms of well-managed systems include:

- *active agenda management* for cabinet and sub-committee meetings -- deadlines for policy proposals are set well in advance, progress is monitored, and significant delays in the preparation or review rarely occur;
- *feasible legislative agendas* --prior to each sitting, a realistic slate of draft laws is identified taking into account parliament's review capacity and the contentiousness or complexity of proposals;
- *effective early warning systems* --pre-emptive measures exist to minimize the adverse impact of financial shortfalls, recognize fiscal pressures, or anticipate implementation delays; and

¹⁹ a point where agreement is required for approval of a policy decision (e.g., by the legislature for a draft law, or by the Constitutional Court for a policy proposal with constitutional implications)

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- a *solid track record in budget execution* --approved budget funds are flowed without in-year reductions.

Table 4 – Examples of Best Practices in Ensuring Implementation

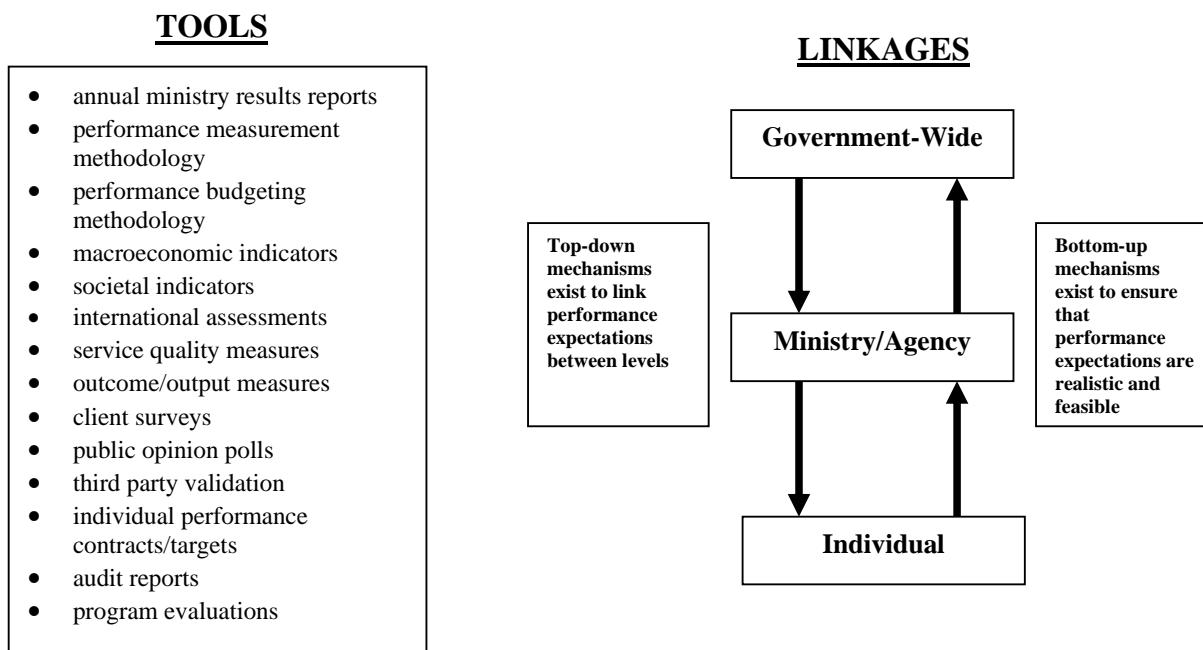
Government	Sample Process
Canada	<ul style="list-style-type: none">• an Operations Committee, chaired by the Deputy Prime Minister, oversees day to day management of the government's agenda
Ontario	<ul style="list-style-type: none">• prior to each sitting of the legislature, a week-by-week plan for review of government draft laws in the legislature is approved (achieved 90%+ accuracy in late 1990s)
Lithuania	<ul style="list-style-type: none">• deadlines for submitting policy proposals to support the Government Programme are established and reviewed on an annual basis; on-time delivery improved from 27% in 2000 to 72% in 2002; budget reliability has improved significantly; a sample of 5 programs showed an average funding shortfall of 14% in 1999 vs. only 4% in 2001
New Zealand	<ul style="list-style-type: none">• requires (at least) semi-annual reports on progress towards all key output/outcome targets

2.2 Integrated Performance Management

In some countries, public administration reform has been driven by fiscal objectives; in others by public demands for better service. In all cases, these drivers have been underpinned by a need to improve performance. This section reviews international assessments and efforts undertaken in the four case study countries to integrate performance management at government-wide, ministry/agency, and individual levels, and to implement performance measurement and performance budgeting systems. Note that the roles of external institutions, such as the Legislature or Supreme Audit Institution, are not addressed.

Figure 3 illustrates key components of an integrated performance management system.

Figure 3



Government-Wide Performance – International Assessment

The concept of determining government-wide performance is not new. International organizations have long used a wide range of benchmarks or indicators to assess and compare national or government performance [United Nations Development Program’s human development index; World Bank’s state capture and administrative corruption indices; European Bank for Reconstruction and Development’s governance index for transition countries].

The World Bank’s primary indicator for assessing progress in governance development is the Governance Research Indicator Country Snapshot (GRICS). This composite indicator determines governance quality by combining individual indices for 6 parameters of good governance: voice and accountability; political stability and lack of violence; government effectiveness; regulatory quality; rule of law; and control of corruption²⁰. The GRICS indicator has been applied widely, for example as a funding condition from the Millennium Development Fund, as it permits cross-country comparisons. GRICS has been calculated every two years since 1996.

The Bank supplements this global assessment with second generation indicators that identify with more precision critical contextual information on internal and external constraints. Box 1 provides examples. In addition, the Bank employs a series of diagnostic tools,²¹ such as the anti-corruption diagnostic, country procurement

²⁰ For more information about this and other integral governance indicators see reference materials prepared by the Donor Secretariat *Integral Indicators Of The Efficiency Of State Governance Reform*, 2004, as well as the web-based database at <http://info.worldbank.org/governance/kkz2002/>.

²¹ For more information on available diagnostic tools see *PREM Notes. The Public Sector Governance Reform Cycle: Available Diagnostic Tools. No.88 July 2004* <http://www1.worldbank.org/prem/PREMNotes/premnote88.pdf>

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assessment review, country financial accountability assessment, and a number of sector-specific tools, such as the revenue administration diagnostic used during the preparation of the second tax administration modernization project in Russia. These provide extensive analytic information against best practices that can help countries shape reform programs.

Box 1. Examples of “Second Generation” Governance Indicators : Constraints to the Executive

Formal horizontal (Delay in presentation of external audit of budget implementation to Parliament; number of citizens and businesses that has litigated against executive entity);

Informal horizontal (Political appointees in the civil service)

Inter-governmental vertical (Budgetary autonomy of sub-national government, e.g. sub-national expenditures (revenues) as a share of GDP) ;

Vertical checks from electorate (Literacy rate)

Executive capabilities:

Process indicators (Central government wage bill/GDP; Average government wage to per capita GDP)

Performance indicators (Waiting time; quality of public service delivery)

Source: S. Knack, M. Kugler, and N. Manning. Second-Generation Governance Indicators. International Review of Administrative Sciences. Vol. 69 (2003) 345-364

Another example of an international assessment tool is OECD SIGMA’s use of baseline assessments to determine the progress of candidate countries towards EU accession in areas such as civil service management, policy management, public expenditure management, financial control, external audit, and public procurement. NGO’s also develop comparative indicators covering specific dimensions of government performance. For example, the release of the annual corruption perceptions index by Transparency International invariably initiates debate about the direction and success of national anti-corruption programs. Although there are well-acknowledged limitations to broad-based indicators and diagnostics, they furnish an essential tool for any country contemplating a reform program and requiring a means to identify relative strengths and weaknesses.

Government-Wide Performance – Government Measures

Interestingly, the use of government-wide performance measures by governments themselves is a more recent phenomenon. The cases reviewed in this paper identify several mechanisms:

- *Societal indicators [benchmarks]* – a select group of key indicators intended to be measured regularly over an extended period of time and felt to express the core goals or values of a country or society. In some cases, targets may be set for one or more of these indicators. Both the Canadian Federal and New Zealand governments publicly report progress made against societal indicators, as does the Canadian province of Alberta.
- *Performance measures developed in support of a national vision or development plan* – Many countries prepare long-term national visions (e.g.,

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India's *Vision 2020*) or development plans. Of the four cases, Lithuania most closely uses this model, having produced a long-term state development strategy (looking forward 10+ years) and a national development plan (forecasting 6 years of capital requirements) as part of its European Union accession arrangements. Although performance measurement is still very basic in Lithuania, ministries are instructed to link their plans and measures to these long-term, strategic documents.

- *Macroeconomic indicators* – All countries produce macroeconomic reports that include projections for a series of key indicators (GDP, deficit, inflation, unemployment). New Zealand, in particular, provides longer-term (up to ten-year) forecasts.
- *Service quality measures* – may gauge the quality of specific public services (e.g., policing) or of common interactions with the public (e.g., response times to letters). The Canadian cases illustrate significant initiatives in each area: the *Citizen's First* initiative gauges public perceptions of federal, provincial and private sector services; Ontario includes public interaction measures in individual performance contracts. New Zealand builds service quality measures into its ministry/departmental plans.
- *Public opinion surveys concerning government performance* – New Zealand and the Canadian Federal government have undertaken such surveys.
- *Policy Management Performance Measures* - Lithuania conducted two surveys to set benchmarks for its overall policy management performance in areas such as the government's focus on priorities and effective use of decision-making time.

Ministry Performance

Notwithstanding increasing recognition of horizontal policies and crosscutting issues, the core government organization remains the ministry. Policies, budgets and staffing are still primarily assigned to ministries. Accordingly, the two fundamental documents outlining what a government expects to accomplish and what it actually has accomplished are the ministry's annual plan and the corresponding report on results. All four governments employ such documents as cornerstones of their accountability frameworks.

Table 5 – Plans and Results Reports of the Four Case Study Governments

Government	Plan	Results Report
Canada	Report on Plans & Priorities	Departmental Performance Report
Ontario	Business Plan	Business Plan Report Backs
Lithuania	Strategic Activity Plan	Results Report to Parliament
New Zealand	Statement of Intent	Annual Report

In addition, expected performance is included in the policy and financial instruments (see table 3) used to present detailed policy options and their financial impacts to the government. Although it would be an exaggeration to assert that performance

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considerations strongly influence policy decisions, it is certainly true that the profile of performance measurement has increased over the last decade. All four governments have assigned responsibility for performance measurement to one or more central agencies and cabinet committees.

Table 6 – Responsibility for Performance Measurement

Government	Central Agency(s)	Cabinet Committee
Canada	Treasury Board Secretariat	Treasury Board
Ontario	Management Board Secretariat	Management Board
Lithuania	Chancellery, Ministry of Finance	Strategic Planning Committee
New Zealand	Treasury, State Services Commission	Government Expenditure & Administration

Agency Performance

This area is not explored in depth owing to the wide variety of governance arrangements among the four jurisdictions. One common theme, however, is that the traditional accountability vehicle, the memorandum of understanding, is being supplemented by more transparent, performance-oriented vehicles:

- Lithuania requires “strategic activity plans” to be submitted for all autonomous agencies; and requires that the strategic activity plans of subordinate agencies be reflected in the responsible ministry’s plan.
- In the Canadian Federal government, Treasury Board is responsible for reviewing agency plans; Ontario requires that evidence of agency business plans exist.
- New Zealand’s agencies are generally subject to the same reporting requirements as ministries. To ensure coordination, non-binding protocols are negotiated between ministries and service delivery agencies with related mandates.

Individual Performance

The Canadian Federal, Ontario, and New Zealand governments all link the performance contracts of senior management to ministry plans and results, although Ontario likely has the most formal mechanism. Lithuania is in the process of designing its individual performance evaluation system.

- Ontario provides the most transparent example of a system where performance and pay cascade from government to ministry to individual levels; if the Premier determines that government-wide performance was unsatisfactory, management performance bonuses are not allocated at all; if a ministry’s overall performance is rated as poor, no management performance bonuses are allocated to that ministry.
- Because of the depth and rigor of its performance reporting, New Zealand has the widest range of performance information to draw on when assessing the

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performance of its chief executives. In turn, New Zealand's chief executives have the greatest latitude to link pay with performance among departmental senior management.

In principle, the performance goals of the ministry expressed in senior management contracts cascade down through different organizational levels. Admittedly, this becomes more difficult at junior levels where linkages are more difficult to determine and pay for performance may be governed by a collective agreement. A recent OECD review on performance-related pay demonstrates that though two-thirds of OECD member countries have implemented performance-related pay or are in the process of doing so, the practices of performance measurement and evaluation practices vary significantly among various countries. Notably, performance appraisal at the individual level tends to rely on the dialogue with the line managers rather than on precise quantifiable indicators; while general attention to outputs is preserved, more emphasis is being made on other criteria, such as competences and social skills. Ensuring the link between organizational objectives and targets set for individual staff remains a challenge in many countries²².

Performance Measurement Methodology

Three of the case countries (New Zealand, Canada, Ontario) have extensive, long-standing experience with performance measurement systems. All are currently engaged in improving the quality of output measures, formalizing the use of outcome measures, disseminating methodologies (e.g., results chain, logic model), better linking expenditure and results reporting, and expanding public reporting. Lithuania, which is in the early stages of introducing performance measurement, has made significant advances in public reporting of actual versus expected results to Parliament.

Classic methodologies describe how inputs are converted into activities, outputs, and outcomes, with a view to determining program effectiveness. Increasing emphasis is being placed on using performance measures for wider purposes.

- External consultant verification of performance standards for common public interactions, such as telephone/letter response times (Ontario);
- Client surveys to determine public perceptions of service quality (Canada, Ontario, New Zealand);
- Horizontal measures to capture the performance of multi-ministry programs (Canada); and
- A performance measurement scheme to assess the effectiveness of the broad management system that includes performance measurement itself (Canada).

Successful performance management systems require an on-going process of performance monitoring established both for the government agenda as a whole and at

²² *Performance-Related Pay Policies for Government Employees: Main Trends in OECD Member Countries*. OECD. 2004

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the level of specific programs. While this task may be partly fulfilled through the use of performance information throughout the budget cycle, efficient performance management calls for additional monitoring systems to be in place. The approaches to monitoring government performance are diverse.

For instance, in the UK, the Prime-Minister selects 30 – 40 top priority indicators out of the total of over a hundred national indicators and assigns the function of monitoring of achievement of those priority targets to the Prime Minister's Delivery Unit. Individual Departments responsible for the priority targets supported by the staff from the Delivery Unit develop an action plan to achieve those indicators. The action plan contains certain milestones (activities necessary for achieving the indicator) and intermediate priority performance indicators to track how the activities undertaken gradually translate into an ultimate policy impact. The Delivery Unit conducts regular monitoring of the action plan implementation through comparison of the actual dynamics of the indicator values with the planned indicator values (the trajectory). Such analysis facilitates early adjustment of the action plan or development of changes into the government policy in a certain area if

Box 1: Monitoring State Administration Reforms in Bulgaria: Examples of Performance Measures

Strategy Area: *Planning and Implementing the Strategic Goals of Administration's Activity*

Performance measures used to assess progress:

- Share of public administration bodies that have clear strategic frameworks for goals and results;
- Share of territorial administrations that have clear strategic frameworks;
- Share of public servants aware of the priorities pursued by the public administration bodies they are working in;
- Share of strategic goals attained;
- Number of public administration bodies which changed their organic rules during the past year;
- Number of functions transferred to other administrative level.

Source: Republic of Bulgaria. Report on the State of the Public Administration in 2003. April 2004.

implementation progress proves to be disappointing.

The annual reports on the state of public administration prepared by the government in Bulgaria present a good example of integrated monitoring of the complex program of reforms set out in the Government of Bulgaria's *Strategy for State Administration – from Accession to Integration, 2003 – 2006*. These reports allow progress in implementing public administration reforms across various organizations and levels of government to be monitored and evaluated. Examples of performance indicators used in the report are presented in Box 1.

Performance Budgeting

There is no single approach to or standard definition of performance budgeting. A component usually found in such programs is that decisions on resource allocation are informed by a consideration of actual achieved results against performance targets. Implementing performance budgeting requires an iterative and gradual approach. Few countries have reached very advanced stages of performance budgeting. An OECD study on budgeting and results-based management in 27 OECD countries reported that:

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- most countries included performance information in budget documentation;
- 20 of 27 countries reported expenditures against output targets; and 15 against outcome targets; but
- only 6 countries linked expenditures to all output targets; and only 3 to all outcome targets.

A Canadian study (*Linking Resources 2002*) further concluded that:

- although there is often an alignment of budgeted resources to expected results, it is rare that this extends also to actual expenditures and actual results.

It is usually a messy, complex, iterative and time-consuming process to strengthen linkages between results and resource decisions. In the four case studies presented here:

- New Zealand has developed the most comprehensive and intricate linkages between planned outputs and resource allocation decisions. Expenditures are organized under output classes/outputs and included in an output plan. Actual results are reported against all output measures. The system is now further emphasizing outcome measures.
- Lithuania has implemented a performance budgeting methodology, but it does not yet serve to inform resource allocation decisions, which remain primarily incremental, or provide clear reporting of expected or actual expenditures vs. results.
- The Federal Canadian federal government provides extensive information on expected and actual expenditures and results, but resource allocations are not yet significantly aligned to this data.
- Although Ontario provides information on actual versus expected results, this is not clearly linked to expenditures or resource allocation decisions. Both governments are actively attempting to strengthen this linkage.

In countries where planning systems are less robust, links between goals/objectives and results may be derived more by comparing actual performance against the implicit expectations set out in administrative regulations and standard operating procedures.

2.3 Executive Decision-Making Bodies

The pace, volume and complexity of issues facing governments today can overwhelm the capacity of Cabinet to serve as an effective decision-making forum. Typical problems include:

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- Ministers receive an enormous amount of material covering a wide range of issues, but are expected to make informed decisions with little preparation time;
- insufficient time exists at Cabinet to consider the full implications of the proposals being presented;
- the Head of Cabinet finds it difficult to ensure that priority items are not squeezed out by large numbers of unanticipated items;
- issues with implications for other ministries are not properly coordinated beforehand; and
- little in-depth policy or financial analysis, or policy alternatives, accompany the proposals.

In response, all OECD countries delegate the policy review function to sub-committees as a means to ensure the effective and efficient functioning of Cabinet, which retains final approval authority.²³ Common features include:

- the Head of Cabinet is able to focus his time on strategic priorities; the higher the priority of an item, the greater the attention that will be devoted to it;
- discussion between smaller numbers of Ministers with related mandates affords more in-depth review, better inter-ministerial coordination, and prior resolution of disagreements;
- emphasis is placed on issues that might be overlooked or covered quickly in a full Cabinet meeting, such as:
 - realistic fiscal and economic costs;
 - impacts on various groups;
 - coherence with other policies; and
 - public communications;
- significant time is saved at Cabinet since:
 - inadequately researched items will be screened at committee and not proceed to Cabinet; and
 - if an item at Cabinet unexpectedly does generate controversy, it can be referred back to committee.

Discussions in full Cabinet will seldom be of sufficient focus or duration to decide among complex alternatives...the critical considerations are that: the sub-committee

²³ Although sub-committee systems are most common in collegial or cabinet systems, they often exist within semi-presidential systems either as governmental (i.e., comprising ministers) or hybrid (comprising both ministers and key members from the President's administration) bodies.

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system strikes the right balance between the head of government's need to forge consensus and individual ministers' needs to have meaningful input; that it allows the government to focus on its priorities; and that it facilitates informed policy debate and tradeoffs without circumventing budgetary constraints. (Evans & Manning 2003)

There is no prevailing best practice or dominant approach with respect to sub-committee configurations. The chart below describes five generic types of cabinet sub-committees present in many systems and common characteristics.

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Table 7 – Common Types of Cabinet Sub-Committees

Type	Chair/Members	Mandate
Strategy	chaired by Head of Government; comprises senior/central agency ministers	<ul style="list-style-type: none"> • identify the Government's strategic policy priorities • finalize the Government's macroeconomic and budget strategies • establish the Government's annual workplan (e.g., proposed legislative agenda) • review and approve complex or contentious policy strategies
Management	chaired by Minister of Finance; often includes ministers from high-spending ministries and those with financial backgrounds	<ul style="list-style-type: none"> • review annual ministry strategic plans and supporting budget requests • oversee the Government's performance management process (e.g., setting/reporting on performance measures) • review the fiscal implications of all policy items • review major personnel and administrative matters affecting the Government as employer (e.g., remuneration of civil servants)
Standing Policy	chaired by Minister from that policy field; includes other ministers with related portfolios	<ul style="list-style-type: none"> • review all major policy proposals within that policy field • serve as a forum for reviewing horizontal policy strategies that are not the exclusive domain of a single ministry (e.g., combating crime) • ensure that policy proposals among ministries with related mandates are coherent and that impacts on other ministries are identified • resolve disputes between Ministers/ministries prior to Cabinet
Special Purpose	chaired by Minister responsible for the issue; includes other ministers affected by that issue	<ul style="list-style-type: none"> • time-limited, since the committee exists for a single purpose (e.g., complete a complex reform; oversee an expenditure review exercise; monitor a set of negotiations) • often oversees the design phase (e.g., sets terms of reference for a particular exercise) • reviews progress reports and detailed recommendations
Statutory Business	chaired by Minister of Justice; often includes ministers whose ministries produce high legislative volumes; and ministers with legal backgrounds	<ul style="list-style-type: none"> • review all statutory instruments (e.g., draft laws; secondary legislation) prior to Parliamentary review or sign-off by the Head of State to ensure that: <ul style="list-style-type: none"> ○ Cabinet's policy directions have been followed; and ○ the technical quality is sufficient • review issues regarding relations with Parliament • review statutory appointments

The current cabinet sub-committee configurations of Canada, Ontario, and New Zealand are set out below.

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Table 8 – Sub-Committee Structures in Canada, Ontario & New Zealand

Sub-Committee Name	Generic Type
CANADIAN FEDERAL GOVERNMENT	
*Priorities & Planning	Strategy
Operations	Strategy
Treasury Board	Management
Expenditure Review	Special Purpose
Domestic Affairs	Standing Policy
*Global Affairs	Standing Policy
*Canada-United States	Standing Policy
Security, Public Health & Emergencies	Standing Policy
*Aboriginal Affairs	Standing Policy
ONTARIO PROVINCIAL GOVERNMENT	
*Priorities and Planning	Strategy
Management Board	Management
Health & Social Services	Standing Policy
Education	Standing Policy
Economic Affairs	Standing Policy
Community Affairs	Standing Policy
Federal, Interprovincial & Municipal Relations	Standing Policy
Legislation & Regulations	Statutory Business
NEW ZEALAND GOVERNMENT	
*Policy	Strategy
Government Expenditure & Administration	Management
Economic Development	Standing Policy
Social Development	Standing Policy
External Relations & Defence	Standing Policy
*Domestic & External Security Coordination	Standing Policy
Legislation	Statutory Business
*Appointments & Honours	Statutory Business

* chaired by the Head of Government (Prime Minister)

It is noteworthy that no special purpose committees exist to oversee administrative reform. This largely owes to the fact that restructuring is entering a consolidation phase in all governments now and can be managed through the regular budget and organizational review processes. However, there is certainly a tradition of creating special purpose ministerial committees during the height of administrative reform (e.g., Program Review in Canada; Star Chamber in the United Kingdom). These committees do not, however, become permanent structures.

Lithuania has also moved strongly towards using sub-committees for prior review of major policy issues. Throughout the 1990s, when the weekly cabinet meeting provided the primary forum for policy deliberations, the review process was characterized by jammed agendas, minimal discussion, and lengthy delays. In fact, in 1999, nearly half of the draft laws from the Government's Programme assigned to ministries missed their deadline by more than six months. To address this and other policy management problems, the Strategic Planning Committee (SPC), chaired by the Prime Minister, was established in 2000 to set the government's policy priorities, finalize its fiscal plan, review individual ministry strategic plans, assess the results

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achieved against the targets set in those plans, and review all priority policy issues. The chart below summarizes a few of the improvements achieved in policy management since the introduction of this body.²⁴

Table 9 – Policy Management Performance in Lithuania

Factor	pre- SPC	post-SPC
proportion of priority policy items that missed their deadline by more than six months	46%	8%
proportion of discussion time spent in Cabinet & Cabinet Committees on priority policy proposals	43%	84%
proportion of draft legislation that supports government policy priority	38%	76%

Obviously, Lithuania's improved performance cannot simply be attributed to the creation of one sub-committee. In fact, this was one among a range of measures adopted as part of the government's overall strategy to strengthen policy and performance management. Nonetheless, it did play a critical role in improving overall agenda management by the government and, most importantly, engaging the Prime Minister and senior ministers in the reform process.

Given the variety of approaches, it is difficult to generalize about the pros and cons of various executive decision-making structures. However, a number of critical success factors do apply widely:

- All major policy decisions, whether or not they have received prior review at a cabinet sub-committee, proceed through Cabinet for final ratification. This assures all ministers that they have an opportunity to express their views on any given issue.
- The cabinet meeting serves as a forum to ratify, not debate clearly worded recommendations; prior resolution of inter-ministerial disagreements occurs at a cabinet sub-committee.
- The Head of Government is able to determine the consensus position of Cabinet on policy issues when there are differing views among ministers.
- The Head of Government and the Minister of Finance develop a unified approach on major macroeconomic or fiscal issues prior to their presentation at a cabinet or cabinet sub-committee meeting.
- The Head of Government's time at cabinet sub-committees is safeguarded and used exclusively to provide strategic direction and review major issues.
- Whether or not cabinet members individually support a particular proposal, they are bound to adhere collectively and publicly to cabinet's decisions.

²⁴ Two studies were conducted by the Chancellery in 2000 and 2002 to assess the quality of the government's policy management system. See (Evans and Evans 2003).

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- Any minister with a vested interest in a given policy issue may be invited to the cabinet sub-committee that will be conducting the policy review.
- Ministers are provided with clear options, high quality analysis, and sufficient lead time to review the policy proposal.
- The distinct roles of the centre of government (policy management) and line ministries (policy development) are observed.
- Senior officials from the civil service actively participate, in an advisory role, in the deliberations of cabinet committees.

2.4 Central Agencies

Central agencies are formed at the administrative level to support executive decision-making bodies, to provide quality assurance, coordination and continuity to the policy process, and to ensure the efficient, effective management of the public service. In most instances, these organizations are comprised exclusively or primarily of permanent civil servants.²⁵

The distinction between central agencies and line ministries is rarely set out in legislation and a precise demarcation of central vs. line responsibilities is seldom possible.²⁶ However, all governments create organizations that assist with managing and coordinating the political and administrative system as a whole. In fact, central agency effectiveness is a fundamental determinant of high quality policy and performance management. Commonly found central agencies include : Cabinet Office; Ministry of Finance; Public Service Commission.

Core Central Agency Functions

There is no single model or best practice with respect to the appropriate number or mandates of central agencies.²⁷ However, the following core functions are typically delivered by central agencies in most systems:

Table10 – Central Agency Core Functions and Sub-Functions

Core Function	Select Sub-Functions
Policy Management	<ul style="list-style-type: none">• support policy priority-setting• horizontal policy coordination• policy review & quality assurance

²⁵ Some systems fill select senior positions with political appointees, or have special agreements that allow the Prime Minister or Minister to have influence over which permanent civil servant is selected as head of their central agency.

²⁶ One definition of central agencies is: “*Those organizations in the executive branch that co-ordinate the activities of, and provide guidance to the operating ministries and agencies.*” (Evans & Manning 2003). In practice, organizations such as the Ministry of Finance may deliver both central agency (e.g., managing the budget process) and line ministry (business regulation policy) functions.

²⁷ Dysfunctional configurations are commonly characterized by a high number of central agencies, a high degree of overlap or ambiguity between mandates, and no clear conception of the distinction between central agencies and line ministries.

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	<ul style="list-style-type: none"> • monitoring implementation of policy priorities
Economic Management	<ul style="list-style-type: none"> • macroeconomic and structural policy • economic and revenue forecasting • apply macroeconomic instruments (e.g., tax policy)
Public Resource Management	<ul style="list-style-type: none"> • budget formulation • budget execution • accounting, audit and financial reporting • financial management information systems
Human Resources Management	<ul style="list-style-type: none"> • human resources policy (e.g., staffing) • compensation policy • employee relations • training & development
Institutional Renewal	<ul style="list-style-type: none"> • oversee government restructuring • service quality (cross-government) • change agent initiatives

The chart below outlines how these core functions are assigned to individual ministries in the four case study governments.

Table 11 – Central Agency Configurations in Four Governments

Generic Central Agency Function	Major Central Agency(s)
CANADIAN FEDERAL GOVERNMENT	
Policy Management	Privy Council Office
Economic Management	Ministry of Finance
Public Resource Management	Treasury Board
Human Resources Management	Treasury Board, Public Service Commission
Institutional Renewal	Privy Council Office, Treasury Board
ONTARIO PROVINCIAL GOVERNMENT	
Policy Management	Cabinet Office
Economic Management	Ministry of Finance
Public Resource Management	Management Board
Human Resources Management	Management Board
Institutional Renewal	Cabinet Office, Management Board
NEW ZEALAND GOVERNMENT	
Policy Management	Department of the Prime Minister & Cabinet
Economic Management	Treasury
Public Resource Management	Treasury
Human Resources Management	State Services Commission
Institutional Renewal	Department of the Prime Minister & Cabinet, State Services Commission, Treasury
LITHUANIA GOVERNMENT	
Policy Management	Chancellery
Economic Management	Ministry of Finance
Public Resource Management	Ministry of Finance
Human Resources Management	Ministry of Interior
Institutional Renewal	Chancellery, Ministry of Interior

Policy Management Central Agencies

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In developing countries, the support provided to policy management is frequently weak. Often this derives from equating effective policy management at the centre with excessive centralization at the expense of line ministries. In a dysfunctional system, this can certainly be true. However, policy and decision-making quality are rarely served if line ministry proposals proceed through to approval untested and unchallenged. Most successful governments ensure that a robust “challenge function” exists to ensure decision makers are provided with high quality proposals and feasible options. The chart below (from Manning and Evans 2003) highlights key competencies of a well-performing central agency responsible for policy management.

Table 12 – Central Agency Policy Management Competencies

Overall Competencies <ul style="list-style-type: none">• Provide policy management leadership across government.• Set clear procedures and codified standards for policy management.	
Stage of Policy Process	Competencies
Stage 1: Executive sets broad policy commitments	<ul style="list-style-type: none">• Offer modest assistance in the integration of policy and fiscal planning• Ensure horizontal policy coordination
Stage 2: Ministries prepare detailed policies and budgets	<ul style="list-style-type: none">• Negotiate feasible policy and legislative programs with line ministries• Analyze ministry policy proposals without developing policy• Ensure consultation on the cabinet agenda
Stage 3: Executive ensures means to implement	<ul style="list-style-type: none">• Anticipate obstacles in parliament• Ensure quality in legal drafting• Facilitate budget deliberations
Stage 4: Ministries implement	<ul style="list-style-type: none">• Promulgate decisions• Selectively monitor implementation

At the heart of a well-functioning system is a constructive relationship between the central agency responsible for policy management (henceforth Cabinet Office²⁸) and line ministries. Best practices in this regard include:

- Cabinet Office is capable of providing policy alternatives and challenging ministry assumptions or analyses;
- Ministers, in their collective decision-making role, rely on and respect Cabinet Office’s assessments;
- Cabinet Office is delegated authority to turn back ministry proposals that do not meet minimum quality standards;

²⁸ Other common terms for such an organization include: Chancellery, Council of Ministers Secretariat, Apparatus, Government Secretariat, Government Office, Department of the Prime Minister and Cabinet.

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- Cabinet Office provides ministers and ministries with a realistic assessment of obstacles that may confront their policy initiatives (e.g. parliamentary backlogs, scheduling problems at the sub-committee stage, likely opposition by other ministries);
- An effective forum exists in which the Head of Cabinet Office regularly meets with the administrative heads of ministries to discuss how best to implement the government's policy directions or to resolve a particular policy problem;
- Cabinet Office develops and keeps current detailed procedures on the policy process and provides guidance to ministries (e.g., a procedures manual, best practices) on how to prepare various documents for submission to government;
- Critical information concerning policy issues is not routinely withheld from Cabinet Office by line ministries; and
- Cabinet Office is perceived by line ministry policy officials to be a desirable career choice; this facilitates job mobility between line ministries and central agencies.

Performance Management Central Agencies

In terms of best practices, those mentioned above regarding policy management central agencies apply equally to performance management central agencies. However, here the challenges may be more pronounced.

First, coordination is more complex. Performance management is rarely the responsibility of a single central agency. In New Zealand, for example, the Department of the Prime Minister and Cabinet, Treasury, and the State Services Commission all have a role in this function. In Ontario, the Secretary of Cabinet (the administrative head of Cabinet Office) assesses the performance of individual deputy ministers (the administrative heads of ministries), while Management Board Secretariat is the primary central agency involved in the review of ministry performance against their business plan goals. National statistical offices (e.g., Statistics Canada), while not directly involved in monitoring government performance, are mandated to work with government to ensure data quality and avoid duplication of data collection by ministries. Effective coordination mechanisms therefore must be developed across central agencies.

Second, countervailing forces exist to full implementation of performance management systems:

- Political commitment to such systems is seldom unqualified, as there can be considerable downsides to transparent reporting of results;
- Long-term risk management typically extends beyond the political time horizon;

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- Meaningful performance measures can take years to develop and require a methodological rigor that is not a routine skill among middle and senior management;
- Data collection mechanisms, information management systems, and administrative support for performance management can be very costly;
- The higher the rewards for good performance (e.g., performance pay), the greater the incentives to understate targets and overstate results; and
- Multiple management demands (political, policy, fiscal, human resources, communications, stakeholder) may crowd out attention to performance issues - although these are inter-linked.

Finally, external groups are increasingly involved in determining and assessing performance (e.g., improved performance information for Parliament, accountability legislation, citizen's charters, service quality surveys, internet access, expanded public consultations). This, of course, is a positive development overall for strengthening accountability. It does, nonetheless, place increasing and new stakeholder management responsibilities on central agency officials.

Unquestionably, significant progress has been made over the last 10-15 years in institutionalizing performance management. However, the pace of entrenching performance as a critical factor of decision-making has not gained significant traction. This is not to imply that the task is hopeless or unnecessary. On the contrary, the fact that most governments are actively seeking to implement integrated performance management systems attests to its acceptance as a critical tool for improving the quality and cost-effectiveness of government policy and services. Nonetheless, real constraints exist, attention to this matter is not unlimited, and concerted, sustained effort is required.

2.5 Implications for the Russian Federation

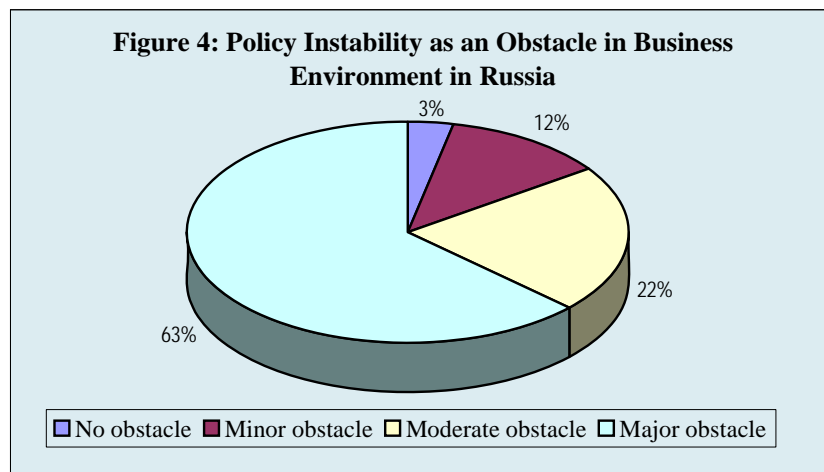
The appropriate place to develop a fully articulated plan to strengthen policy and performance management for the RF Federal government is the Program for Administrative Reform. Given the Russian institutional context, several factors will influence the ultimate approach to be adopted:

- The Constitution establishes a federal system where powers are divided between the federal-level and the sub-national subjects of the Federation, with many areas requiring joint jurisdiction. Local self-government is also provided for in the Constitution.
- The President appoints all members of the Government; i.e., the Prime Minister, with the agreement of the State Duma, as well as the Deputy Prime Minister and all Ministers, on recommendation of the Prime Minister. Unlike parliamentary systems, the Government is not appointed primarily from elected members of the winning party/coalition in the Legislature (although a move was made in this direction following the 2004 Duma elections).

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- The majority of key policy proposals require the participation of both government bodies (mostly ministries) and also the Administration of the President. Policy coordination at the central agency level occurs primarily between the Apparat of the Government and the Administration of the President.
- Responsibility for performance management is divided among several institutions (Administration of the President; Apparat of the Government; Ministry of Economic Development and Trade; Ministry of Finance; Accounting Chamber).
- Ministry strategic plans were linked to budget requests for the first time in 2004 under the 2005 budget process through the requirement placed on ministries to produce performance budget reports. This will in time make it possible to disaggregate performance over different organizational levels and eventually (if so desired) form the basis for linking individual performance to organizational performance.
- It is universally acknowledged that low pay, antiquated management methods, and lack of incentives have created a civil service in Russia that is neither motivated by nor responsive to performance considerations.

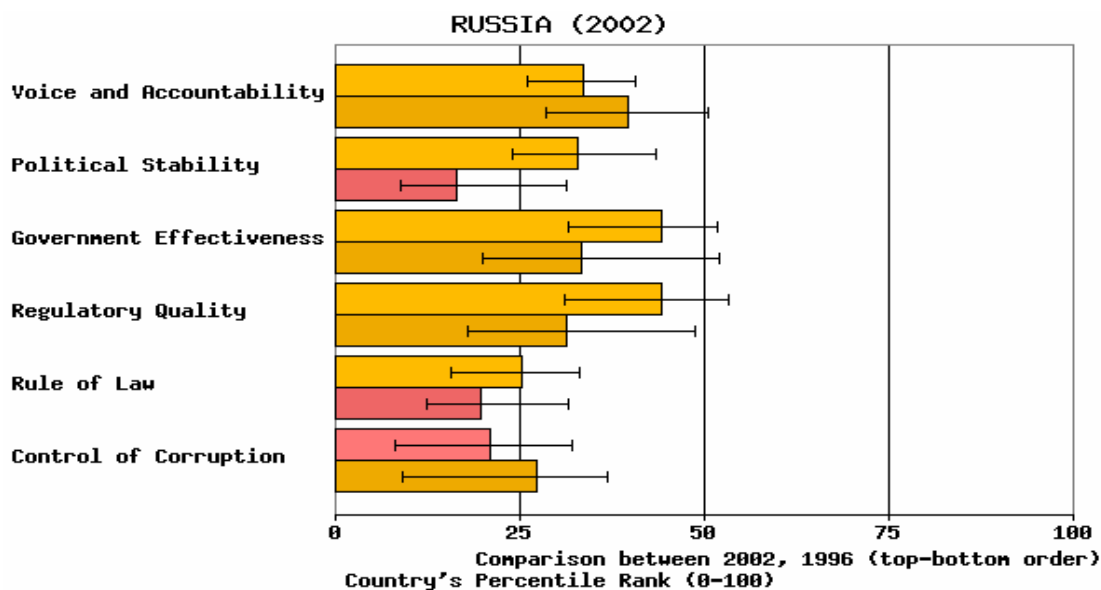
Further contextual information can be provided by reviewing RF performance against some of the international indicators and assessment tools identified earlier in this chapter. For instance, business surveys highlight the ongoing role of policy instability (BEEPS 2002 survey) as a major obstacle to doing business in Russia.



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Notwithstanding improvements in some governance indicators, Russia still lags far behind OECD countries and indices for voice and accountability and control of corruption under GRICS have actually worsened between 1996 to 2002 (Figure 5).

Figure 5: Governance Indicators for Russia (1996 – 2002)



While implementation of administrative reform will not of itself resolve all weaknesses relating to governance, it does certainly have the potential to mitigate a number of contributing factors. In terms of program design, it could be useful to consider whether or not any of the best practices examined below in the four areas of integrated policy and fiscal planning; performance management; executive decision-making bodies; and central agencies might offer lessons and approaches for the emerging policy management and performance management system being developed in Russia under administrative reform.

Integrated Policy and Fiscal Planning

The following checklist highlights key attributes of a well-functioning, integrated policy management system:

- ✓ The planning system is comprehensive; i.e., all major policy and fiscal decisions take place within a unified policy and fiscal planning process.
- ✓ Public statements of government policy priorities (e.g., government’s annual program) and budget strategies are consistent and mutually reinforcing.
- ✓ The Ministry of Finance produces credible, multi-year macroeconomic, expenditure, and revenue forecasts.
- ✓ Individual ministry budget ceilings influence the preparation of ministry strategic plans.

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- ✓ Ministry strategic plans reflect efforts to reallocate internally resources from low to high priority areas;
- ✓ The planning system is capable of quickly adapting to changes in the policy or fiscal environment (e.g., sharp drops in revenue; an unanticipated major policy issue arises).
- ✓ Formal, detailed procedures and standards exist (e.g., a cabinet procedures manual), instructing ministries how to prepare and present material to decision makers.
- ✓ Effective methodologies exist to translate high-level political commitments into detailed, costed policies and programs.
- ✓ The policy and fiscal impacts of and deliberations on ministry proposals are integrated at each step of the government planning cycle.

A number of the basic building blocks of integrated policy and fiscal planning at whole of government level (but not yet ministry level) appear at least formally to be in place in the Russian Federation. Federal Law No. 115-FZ *On State Forecasting and Programs for Social and Economic Development of the Russian Federation* [1995] regulates forecasting and social and economic development planning. Three forecasts are required: long-term (10 year), to be prepared every five years; medium-term (3-5 year); and short-term (annual). The medium-term forecast is supposed to be reflected in the first Annual Address of the President to the Federal Assembly after the elections, which, in turn, guides the new government's preparation of a detailed Program for Social and Economic Development. The program is presented to the Council of Federation and State Duma. The short-term forecast is supposed to be reflected in the Annual Address of the President to the Federal Assembly, which also reviews progress in implementing the government program. The government then presents to the State Duma the short-term forecast, the draft federal budget for the following year, the Government Action Plan, and the list of federal earmarked programs. By February, results achieved against the goals set in government program are submitted to the State Duma. All social and economic forecasts, concepts, programs and reports are public.

In 2004, in parallel to the restructuring of the Federal Government, two further initiatives were undertaken to strengthen performance management. Under the *Concept for Reforming the Budget Process for 2004-06* [2004], all ministries ("subjects of budget planning")²⁹ were required to prepare their budget requests including performance data (the *Reports on Results and Main Areas of Activity in 2005 – 2007*). Based on these submissions a *Consolidated Government Report on Results and Main Areas of Activity in 2005 – 2007* was prepared as a government-level performance report.

²⁹ The term "subject of budget planning" refers to all Ministries, as well as to the Services and Agencies reporting directly to the Government of the Russian Federation or the President of the Russian Federation. The subjects of budget planning are also responsible for preparation (review) of the budgets for the subordinate services and agencies.

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Fiscal/policy linkages are weakened by the large number of priorities and earmarked programs presently in place, and by the absence of mechanisms to link high-level overall government work program goals to ministry budget planning. The budget process has not so far been driven by policy and performance objectives. This gap will need to be addressed in the next stage of budget reform and administrative reform. Revised regulations on preparation of the *Government Consolidated Report* and on medium-term financial planning could be the appropriate vehicle to provide for formal linkage between the strategic planning process and the budget allocation process. This could begin to provide internal incentives to support the development of a performance-oriented culture both at the level of the Government as a whole and at the level of each ministry.

As regards policy development, there is a formal requirement that assessment of economic, social and financial impacts should be prepared and included when developing and presenting policy proposals to the Council of Ministers. However, the quality of such assessments and the rigor of the review process prior to government approval are both reputedly in need of significant strengthening and improvement. Attention should be directed to this area as soon as the new planning and budgeting system is in place.

Performance Management

Improved performance management is one of the most important desired outcomes from the RF administrative and budget reform programs. The following attributes are typically present in an effective, integrated performance management system.

- ✓ Performance expectations are clearly articulated and linked at government, ministry, agency, department, and individual levels.
- ✓ Government and ministry performance goals contained in ministry strategic plans are reflected in individual performance contracts, particularly at the senior management level.
- ✓ An objective framework exists within which performance rankings are assigned.
- ✓ Clear lines of accountability exist --for each expected result, the person being evaluated knows to whom they are responsible for producing that outcome.
- ✓ Performance expectations are shared in advance - it is unfair and dysfunctional to assess individual performance if the expected results have not been stated with sufficient clarity beforehand.
- ✓ Accountability is a two way street - performance expectations must be feasible and the necessary resources must be made available.
- ✓ Sufficient flexibility exists within the framework to account for and adapt to unforeseen circumstances or unanticipated events.

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- ✓ Appropriate levels of delegation exist - if someone is accountable for producing a particular result, then they must be delegated sufficient authority and resources to realize the desired result.
- ✓ Sufficient capacity exists within or can be recruited into the civil service to accept increased responsibility and meet demands for improved performance.
- ✓ A central agency function exists to review and continuously improve performance management and measurement.
- ✓ Internal audit systems exist to ensure ministry compliance and improve performance.

As identified above, first steps have been taken to seek to ensure that key government priorities are adequately reflected in ministry strategies and budgets through the performance budget reports exercise. This is to form a center-piece of the 2006 budget formulation process. Mechanisms still need to be developed to align team and individual employee performance within a ministry with the ministry level targets and performance measures. A number of experiments are being conducted to explore approaches in this area (for example in the Chuvashia Republic).

International experience shows that it takes many years to implement an effective, integrated performance management system. This should remain a major area of focus under administrative reform over the short to medium-term to support the development of a more effective integrated performance management system capable of leading to improvements in performance and in outcomes.

Executive Decision-Making Bodies

Most cabinet-like decision-making bodies confront the problem that the legally-mandated, collective body is not structured in a way that is conducive to effective decision-making.³⁰ Virtually all such bodies rely on sub-committees to deliver a prior review of policy and legislative proposals.

Discussions in full Cabinet will seldom be of sufficient focus or duration to decide among complex alternatives...the critical considerations are that: the sub-committee system strikes the right balance between the head of government's need to forge consensus and individual ministers' needs to have meaningful input; that it allows the government to focus on its priorities; and that it facilitates informed policy debate and tradeoffs without circumventing budgetary constraints. (Evans & Manning 2003, World Bank)

Characteristics of an effective approach to collective decision-making include:

- ✓ The design of the decision-making system focuses on the decision-making needs of the Prime Minister and Ministers.

³⁰ In semi-presidential and presidential systems, cabinet (government) approval requires a subsequent approval by the President prior to finalizing a resolution or introducing a bill to Parliament. Nonetheless, the same decision-making dynamics apply at the government level.

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- ✓ The Prime Minister is able to focus his time on strategic priorities; the higher the priority of an item, the greater the attention that will be devoted to it;
- ✓ Discussion between smaller numbers of Ministers with related mandates (e.g., economic policy, social policy) affords more in-depth review, better inter-ministerial coordination, and prior resolution of disagreements;
- ✓ Emphasis is placed on issues that might be overlooked or covered quickly in a full government meeting, such as:
 - o realistic fiscal and economic costs;
 - o impacts on various groups;
 - o alignment with priorities and coherence with other policies; and
 - o public communications;
- ✓ Significant time is saved at the cabinet (government) meeting since:
 - o inadequately researched items will be screened at committee and not proceed to Cabinet; and
 - o if an item at Cabinet unexpectedly does generate controversy, it can be referred back to committee.

Extensive use has been made in Russia at Federal level of advisory bodies (commissions) to develop inter-ministry policy. Many of these commissions were used though not as pre-cabinet screening mechanisms but as devices to solve the chronic vertical silos and absence of horizontal coordination found within the Federal government structure. Some though seem to have been used to review policy before a full government meeting. Following the 2004 Federal government restructuring, the number of such commissions was reduced from over 200 to less than 20. The RF authorities may wish to assess whether there is scope for further rationalization in this area, e.g., a move to only 3-4 standing policy sub-committees as in many OECD countries.

Central Agencies

Every government requires high quality support from its central agencies to enable it effectively to manage and coordinate its line ministries. While there are a variety of different models of central agency configurations, functions generally include: policy management, performance management, economic/financial management, and human resources management. An effective central policy management organization can be said to be in place when:

- ✓ The organization is capable of providing policy alternatives and challenging ministry assumptions or analyses.

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- ✓ The organization's head has open access to the Prime Minister and is trusted by line ministries to convey the Prime Minister's position.
- ✓ The organization cooperates with the Ministry of Finance to ensure that policy and fiscal planning are integrated and mutually reinforcing.
- ✓ Prior discussion of ministry policy proposals between the central policy management organization, the Ministry of Finance and line ministries results in a realistic assessment being provided to ministers (e.g. affordable, feasible deadlines, realistic performance targets and comprehensive social and economic impacts).
- ✓ The organization manages an effective contentious issues/crisis management process to ensure that Cabinet's policy review role is not overwhelmed by issues of the day.
- ✓ Ministries do not routinely withhold critical information concerning policy issues from the central policy management organization.
- ✓ The organization is primarily staffed by permanent public servants to ensure continuity in the event of a change of government.

At present at Federal level in Russia, the policy management role is provided jointly by the Administration of the President (informally) and the Apparatus of the Government (formally). The Ministry of Economic Development and Trade also plays a policy management role, as does the Ministry of Finance through the budget and budget reform process. Attention to date at Federal level in the Russian Federation has been focused on rationalizing and streamlining ministry, service and agency structures, functions and mandates. The next step could be to shift the focus towards modernizing central agency structures, functions and mandates in parallel with developing new policy management and performance management systems and processes in line with OECD country practice. This would require a further review of the respective roles and functions of the Administration of the President, the Apparatus of the Government, the Ministry of Economic Development and Trade, and the Ministry of Finance. One of the explicit objectives of the next stage of functional reviews discussed in chapter 1 should be to strengthen policy and performance management roles, responsibilities and capacities.

The implementation of strategic planning and performance management systems will increase demands on central policy management organizations such as the Apparatus of the Government for high-level policy and analytic skills. Although the traditionally strong linkages between the civil service and the Russian academic community may compensate in part for any skills gaps in the civil service, the increasing demand for high-level policy skills may severely strain existing capacity. Innovative recruitment, training and outsourcing approaches to policy and analysis skills may be required.

Lessons learned from international public administration reform cannot simply be transplanted without careful consideration of a particular country's own

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circumstances, institutional arrangements and capacities.³¹ This is perhaps even more the case with respect to policy and performance management reforms, which are close to political leaders and processes and which represent one of the most complex areas of public administration reform. Given that a number of governments owe their positive performance, in part, to successful policy management systems, it is hoped that the cases presented in this paper will highlight some specific models and approaches which may merit consideration and evaluation against the needs and circumstances in Russia as administrative reform develops further.

Monitoring the RF Reform Process

A specific aspect of managing government performance relates to establishing a performance management system to support effective management of the reform programs themselves. Table 13 suggests an overall strategic goal and high-level objectives for public administration reform programs in Russia. A possible set of indicators derived from international experience for monitoring and evaluating reform progress in the Russian Federation is set out in the subsequent tables³².

Table 13 Objectives of Public Administration Reform Programs in Russia

<i>Strategic Goal: Improve public management efficiency and effectiveness so as to support economic growth and competitiveness, human capital development, and poverty reduction</i>				
Objective 1: Develop an optimal structure of federal executive bodies and allocation of functions to ensure efficient and effective performance of public administration and improve quality of public services	Objective 2: Reduce the level of state regulation in the economy	Objective 3: Improve professionalism, prestige, and competitiveness of the civil service	Objective 4: Improve efficiency and effectiveness of budget expenditures	Objective 5: Strengthen transparency and external accountability of public administration

³¹ See Manning and Parison 2004. The risks of attempting to transfer directly the New Zealand experience to a developing country are explored also in Schick's *Why Most Countries Should Not Try New Zealand Reforms*. Schick argues that most developing countries should first strengthen rule-based government and improve input control before contemplating an accountability model based on managerial discretion and output contracts.

³² These tables were produced at the request of the Apparat of the Government.

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Table 14. Monitoring System for Public Management Reforms in Russia

Reform	Objectives and tasks	Outcome performance indicators/output indicators	Data sources
Administrative reform	Objective 1: Develop an optimal structure of federal executive bodies and allocation of functions to ensure efficient and effective performance of public administration and improve quality of public services	<ul style="list-style-type: none"> ▪ Public perceptions on accessibility and quality of public services³³ ▪ Public officials' orientation to service delivery; institutional climate in the civil service ▪ % of approved service standards and administrative regulations that are being adhered to 	<ul style="list-style-type: none"> ▪ Service delivery surveys (WB) ▪ Public officials surveys (DFID – baseline survey in 2003, repeat surveys in 2004, 2005) ▪ Independent monitoring by NGOs, self-assessment by public authorities
	Task 1.1. Optimize structure and staffing of public administration and subordinate organizations	<ul style="list-style-type: none"> ▪ Number of federal executive bodies by type of body ▪ Vacancy rate ▪ Number of civil servants as a % to population ▪ Civil servants wage bill as a % to GDP (federal budget expenditures)³⁴ ▪ Share of actually restructured/eliminated subordinate organizations out of the total number of organizations to be restructured/eliminated as approved by the Commission on Administrative Reform ▪ Dynamics of staffing of and expenditures on subordinate organizations 	<ul style="list-style-type: none"> ▪ Legal and regulatory base; ▪ Federal executive bodies data; ▪ Federal statistical service data; ▪ Decisions of the Commission on Administrative Reform
	Task 1.2. Optimize implementation of executive bodies' functions based on the functional review results	<ul style="list-style-type: none"> ▪ % of functions actually eliminated (transferred to another level, to self-regulating organizations, commercialized) based on functional reviews of federal executive bodies as compared to the number of functions that have to be eliminated (transferred to another level, to self-regulating organizations, commercialized) according to decisions of the Commission on Administrative Reform ▪ Number of eliminated/newly established positions based on functional reviews of federal executive bodies 	<ul style="list-style-type: none"> ▪ Federal executive bodies data; ▪ Decisions of the Commission on Administrative Reform
	Task 1.3. Optimize business	<ul style="list-style-type: none"> ▪ Number of federal executive bodies which have created commissions on 	<ul style="list-style-type: none"> ▪ Federal executive bodies data

³³ Other components of public management reforms, such as civil service reform and budget reforms, may also affect the dynamics of this indicator.

³⁴ To provide for cross-country comparisons, development of additional methodology is needed (given the specifics of public sector statistics in Russia and abroad)

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	<p>processes and introduce administrative regulations and public service standards</p>	<p>development of administrative regulations</p> <ul style="list-style-type: none"> ▪ Number of approved administrative regulations on functions and administrative regulations of interagency interaction ▪ % of approved administrative regulations which lead to reduced time/improved quality of performance of public functions ▪ Number of external complaints (from citizens and legal bodies) on non-compliance with the administrative regulations; % of such appeals which have been considered in favor of external persons ▪ % of public services with approved delivery standards out of total number of public services ▪ Number of federal executive bodies which carry out regular monitoring and evaluation of service delivery ▪ % of public services with information on quality of service delivery placed on the official web-sites of federal executive bodies ▪ % of electronic administrative regulations out of total number of administrative regulations ▪ % of public services delivered based on “single window” or one stop shop approach ▪ % of e-services out of total volume of public services (evaluated as a % of services which may be provided electronically and number of actual e-transactions) 	<ul style="list-style-type: none"> ▪ Data from Commissions on administrative regulations development ▪ Service delivery surveys ▪ Web-sites monitoring results
<p style="writing-mode: vertical-rl; transform: rotate(180deg);">Administrative Reform/ Deregulation</p>	<p>Objective 2: Reduce the level of state regulation in the economy</p>	<ul style="list-style-type: none"> ▪ Perceptions of the level of administrative barriers in selected spheres of economic activity ▪ Growing share of SMEs in GDP and total employment ▪ Growing share of private sector in GDP 	<ul style="list-style-type: none"> ▪ Monitoring of deregulation reforms (CEFIR) ▪ Business surveys (WB – BEEPS) ▪ Federal Statistical Service data

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	Task 2.1. Restriction of government’s interference in economic activity of business, including elimination of excessive state regulation	<ul style="list-style-type: none"> ▪ Reduction in number of bodies conducting inspections of businesses ▪ % of public authorities carrying out control and inspection functions who have implemented “single window” principle ▪ Number of regulatory regimes 	<ul style="list-style-type: none"> ▪ Federal executive bodies’ data
	Task 2.2. Development of system of self-regulated organizations in economic sphere; organizational separation of functions related to economic activity : regulation, oversight and control, public property management and public service delivery	<ul style="list-style-type: none"> ▪ % of control and inspection functions transferred to self-regulated organizations 	<ul style="list-style-type: none"> ▪ Federal executive bodies’ data
Civil Service Reform	Objective 3: Improve professionalism, prestige, and competitiveness of the civil service	<ul style="list-style-type: none"> ▪ Public perceptions of civil service prestige and quality of public officials’ work ▪ Public officials’ perceptions of civil service prestige and importance of merit in the civil service ▪ <i>Policy credibility</i> index (allows to evaluate whether (i) policies were consistent; (ii) policies were clearly communicated to employees; (iii) polices were supported by employees; (iv) there was political interference/micro-management.) ▪ <i>Rule credibility</i> index covering the issues of rules in recruitment; rules in evaluation/performance management/appraisal; rules in training; rules in recording; fairness in treatment of individuals; predictability of individual employees’ career paths. ▪ Turnover rate at the positions of division/department heads and deputy heads of federal executive bodies at the reappointment of heads of federal executive bodies (<i>depoliticization</i>) 	<ul style="list-style-type: none"> ▪ Public surveys (conducted by MoEDT under the program) ▪ Public officials surveys (DFID – baseline survey in 2003, repeat surveys in 2004, 2005) ▪ Federal executive bodies’ data

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	Task 3.1 ³⁵ Creation of conditions for optimal organizational and legal support to the civil service	<ul style="list-style-type: none"> ▪ Progress in development of modern legal and regulatory base for structuring and functioning of the civil service (adoption of the law <i>On State Civil Service</i> and secondary legislation/ regulatory acts required to implement new principles of civil service management) 	<ul style="list-style-type: none"> ▪ Evaluation made by international organizations (i.e., OECD)
	Task 3.2. Definition of duties, authority and responsibilities of public officials based on job (official) regulations	<ul style="list-style-type: none"> ▪ % of federal executive bodies which have introduced job regulations for civil servants ▪ Public officials' perceptions on the extent of application of job regulations in practice ▪ Public officials' opinion on interrelation between administrative and job regulations in practice 	<ul style="list-style-type: none"> ▪ Public officials surveys (DFID – baseline survey in 2003, repeat surveys in 2004, 2005) ▪ Federal executive bodies' data
	Task 3.3. Introduction of new methods of planning, financing, stimulation and evaluation of civil servants' performance; rational allocation of resources in the civil service system	<ul style="list-style-type: none"> ▪ % of federal executive bodies which have introduced performance-based pay principle ▪ Dynamics of public officials' remuneration structure (base salary, allowances, performance-based bonuses) ▪ % of benefits monetized ▪ Ratio of pay and benefit levels in federal executive bodies and in the private sector ▪ Ratio of average federal public official remuneration to per-capita GDP ▪ Compression ratio for the federal civil service ▪ Public officials' attitudes to attestation and its correlation with pay/promotion ▪ Number of disciplinary sanctions imposed on public officials for non-performance of their official duties 	<ul style="list-style-type: none"> ▪ Federal executive bodies' data ▪ Federal Statistical Service data ▪ Comparative public-private pay and benefits surveys (DFID – federal level, 2003; regional level 2004 and 2005, federal level – 2005)
	Task 3.4. Ensure openness of the civil service to the benefit of the civic society development and strengthening the state	<p>Outcome and output performance indicators related to this task are presented under Objective 5 “Strengthen transparency and external accountability of public administration”</p>	
	Task 3.5. Application of efficient methods for selection of highly qualified cadre to the civil	<ul style="list-style-type: none"> ▪ % of vacancies filled based on open competition ▪ % of vacancies filled competitively by external candidates ▪ Average number of candidates per civil service position 	<ul style="list-style-type: none"> ▪ Federal executive bodies' data ▪ Public officials surveys (DFID – baseline survey in

³⁵ The tasks are formulated in accordance with the Program *Reforming the Civil Service of the Russian Federation (2003 – 2005)*

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	<p>service, performance evaluation of public officials, and creation of conditions for career growth</p>	<ul style="list-style-type: none"> ▪ % of vacancies filled from personnel reserve ▪ Public officials' perception of selection and promotion procedures in the civil service ▪ % of civil servants promoted based on the results of attestation ▪ Vacancy rate in federal executive bodies ▪ Turnover rates in federal executive bodies 	<p>2003, repeat surveys in 2004, 2005)</p>
	<p>Task 3.6 Implementation of civil servant training programs and provision of support to public officials' professional development</p>	<ul style="list-style-type: none"> ▪ % of civil servants who have been re-trained/attended skills upgrading courses ▪ % of civil servants who left civil service within a year after having received re-training courses ▪ % of civil servant training programs adjusted to take account of modern approaches to public management (<i>methodology for programs assessment needs to be developed</i>) ▪ Evaluation of quality of training and re-training programs by civil servants 	<ul style="list-style-type: none"> ▪ Federal executive bodies' data ▪ Data from the Russian Academy for Civil Service (RAGS) ▪ Public officials surveys (DFID – baseline survey in 2003, repeat surveys in 2004, 2005)
	<p>Task 3.7. Introduction of the mechanisms for identification and resolution of conflict of interests in the civil service as well as legal regulation of civil servants' professional ethics</p>	<ul style="list-style-type: none"> ▪ Public officials' perceptions of the extent of adherence to ethics/norms ▪ Number of disciplinary sanctions against civil servants applied in cases of conflict of interest 	<ul style="list-style-type: none"> ▪ Public officials surveys (DFID – baseline survey in 2003, repeat surveys in 2004, 2005) ▪ Federal executive bodies' data
	<p>Task 3.8. Creation of optimal material and technical conditions for efficient functioning of the civil service and implementation by civil servants of their official duties</p>	<ul style="list-style-type: none"> ▪ Public officials' perceptions of their material and technical conditions ▪ Evaluation of material and technical condition by federal executive bodies 	<ul style="list-style-type: none"> ▪ Public officials surveys (DFID – baseline survey in 2003, repeat surveys in 2004, 2005) ▪ Federal executive bodies' data
	<p>Task 3.9. Ensure development of the civil service management system</p>	<ul style="list-style-type: none"> ▪ Establishment and maintenance of a central government body in charge of coordination activities for civil service management ▪ Establishment and maintenance of federal civil servant register ▪ Preparation of annual reports on the state of civil service using civil service performance indicators 	<ul style="list-style-type: none"> ▪ Data from the body in charge of civil service management

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Budget Reforms	Objective 4: Improve efficiency and effectiveness of budget expenditures	<ul style="list-style-type: none"> ▪ Improvements in quality and accessibility of public services per 1 rouble of expenditures for service delivery by types of services ▪ Perception of fairness of public procurement system by business community 	<ul style="list-style-type: none"> ▪ Business surveys (BEEPS) ▪ Service delivery surveys(WB) ▪ Federal executive bodies' data
	Task 4.1. Improve the quality of budget planning and increase the importance of the medium-term financial plan	<ul style="list-style-type: none"> ▪ % deviation of budget allocations provided for in the Law <i>On the Federal Budget</i> from those in the medium-term financial plan ▪ Average % deviation of actual budget expenditures (based on departmental classification) from those provided for in the Law <i>On the Federal Budget</i> (without further amendments) 	<ul style="list-style-type: none"> ▪ Medium-term financial plan, Law <i>On the Federal Budget</i>, data on federal budget execution
	Task 4.2 Streamline procedures for federal budget preparation and approval	<ul style="list-style-type: none"> ▪ Federal budget expenditures are divided into the budget of assumed commitments and the budget of new commitments 	<ul style="list-style-type: none"> ▪ Law <i>On the Federal Budget</i>, Budget Code, regulatory documents issued by Government and MinFin
Budget and Administrative Reforms	Task 4.3. Introduce strategic planning of federal executive bodies' activities and reporting on performance results; expanded application of program and target-oriented methods for budget planning	<ul style="list-style-type: none"> ▪ % of ministries that have approved medium- or long-term strategies containing performance indicators and that report annually on the progress in achievement of their strategic goals ▪ % of sectoral strategies that use improvement of service delivery as performance indicator ▪ % of budget expenditures on federal and departmental earmarked programs out of total non-interest budget expenditures ▪ % of new commitments budget formed based on evaluation of the current and the proposed budget programs ▪ % of budget reports prepared by subjects of budget planning (SBP) of "good" and "excellent" quality (based on formalized evaluation criteria) 	<ul style="list-style-type: none"> ▪ MinFin data ▪ Data of the Commission for Improving Budget Expenditures Efficiency
	Task 4.4. Improve quality of budget planning at departmental level	<ul style="list-style-type: none"> ▪ % of SBPs with quality of budget planning meeting approved formalized requirements 	<ul style="list-style-type: none"> ▪ MinFin data
	Task 4.5. Estimate costs per item of results by each type of federal executive bodies activity	<ul style="list-style-type: none"> ▪ % of SBPs with estimates and management of budget expenditure levels per unit cost of the performance results meeting approved formalized requirements 	<ul style="list-style-type: none"> ▪ MinFin data

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	Task 4.6. Improve quality and competitiveness of goods and services procurement at departmental level	<ul style="list-style-type: none"> ▪ % of federal executive bodies with procurement procedures meeting approved formalized requirements covering the procurement cycle from assessing the procurement needs of goods and services up to control over implementation of the contracts concluded ▪ % of public contracts awarded on competitive basis (by value) ▪ % of public contracts awarded with the use of automated public procurement system ▪ Average number of tender participants for procurement of goods for public entities (for contracts with the price of contract exceeding US\$500,000) ▪ % of contracts (with price of contract over 1 million USD) awarded based on the results of international competitive bidding³⁶ 	<ul style="list-style-type: none"> ▪ MinFin data ▪ MinEcon data ▪ Federal executive bodies' data
	Task 4.7. Strengthen financial management system at the level of federal executive bodies	<ul style="list-style-type: none"> ▪ % of SBPs with financial management systems meeting approved formalized requirements in the area of control and management of available resources, financial commitments, and payments 	<ul style="list-style-type: none"> ▪ MinFin data
	Task 4.8. Improve operational relevance and timeliness of data availability in the federal executive bodies' financial reporting information system and performance reporting system	<ul style="list-style-type: none"> ▪ % of SBPs with financial and performance reporting systems meeting approved formalized requirements for automated accounting and reporting, linking financial information to specific performance indicators (results), monitoring of expenditure level per performance result unit 	<ul style="list-style-type: none"> ▪ MinFin data
	Task 4.9. Develop asset management system	<ul style="list-style-type: none"> ▪ % of SBPs with asset management system meeting approved formalized requirements for maintaining current assets registers, identifying the needs in maintenance, renovation, renewal of assets, management of unitary enterprises, state-owned enterprises, enterprises with state participation ▪ Ratio of incomes from state assets to costs of management of these assets (including maintenance) 	<ul style="list-style-type: none"> ▪ MinFin data
	Task 4.10. Create a system of internal financial control at the	<ul style="list-style-type: none"> ▪ % of SBPs with internal financial control systems meeting the approved formalized requirements for control over observance of rules and 	<ul style="list-style-type: none"> ▪ MinFin data

³⁶ The indicator may be used should the provisions of the Federal Law No. 97 restricting the participation of foreign companies in procurement of goods and services for public needs be amended.

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	SBP level	procedures, identification of inefficient business processes	
	Task 4.11. Improve budget classification of the Russian Federation and budget accounting	<ul style="list-style-type: none"> ▪ Introduction of accrual-based budget accounting ▪ Accounting allows grouping of expenditures by functions and programs 	<ul style="list-style-type: none"> ▪ Law on accounting for budget organizations ▪ MinFin data
	Objective 5. Strengthen transparency and external accountability of public administration	<ul style="list-style-type: none"> ▪ Reduction in corruption perception indices – based on business (BEEPS) and population surveys (TI) ▪ Public officials’ perception of corruption levels ▪ % of information requests sent to federal executive bodies which have been answered in time/with delay/refused 	<ul style="list-style-type: none"> ▪ NGO surveys (TI), business surveys (BEEPS) ▪ Public officials surveys ▪ NGO monitoring
Civil Service/ Administrative Reforms	Task 5.1. Improve transparency and openness of public authorities	<ul style="list-style-type: none"> ▪ % of federal executive bodies meeting the requirements of Government Resolution No. 98 ▪ % of federal executive bodies which have established consultative structures with stakeholder participation which provide for meaningful external involvement in designing development strategies ▪ % of complaints on non-provision of information which have been resolved to the benefit of persons requesting the information ▪ Number of federal executive bodies which have established anti-corruption hotlines (and dynamics of reports through these hotlines) 	<ul style="list-style-type: none"> ▪ Monitoring of federal executive bodies’ web-sites ▪ NGO data
	Task 5.2. Strengthen external accountability system	<ul style="list-style-type: none"> ▪ Monitoring of implementation of recommendation made by external audit body 	<ul style="list-style-type: none"> ▪ Federal executive bodies’ data ▪ Accounting Chamber data

III IMPROVING SERVICE DELIVERY AND QUALITY

The two previous chapters examine approaches to optimizing government structure and strengthening government performance through improving policy and performance management. In this chapter, we consider approaches to improving service delivery and quality through strengthening transparency and external accountability and putting in place service quality programs. These underpin the key linkages between government and its citizens.

Informing, consulting and engaging citizens are core elements of good governance, means for promoting openness, and a sound investment in better policy making. They allow the government to tap new sources of policy-relevant ideas, information and resources when making decisions. Equally important, they contribute to building trust in government, raising the quality of democracy and strengthening civic capacity.

Open Government: Fostering Dialogue with Civil Society: OECD 2003

Emphasis will be placed on summarizing best practices and practical tools used inside government to inform, engage and serve the public. It is hoped that this chapter will provide RF practitioners with a range of practical approaches in the areas of transparency, public accountability and service quality that can be assessed for potential use under the administrative reform program. A survey approach is used to highlight a wide range of concrete examples; with links these tools (methodologies, policies, actual reports) provided in the index of websites.

The chapter begins with a review of mechanisms through which governments seek to increase transparency. These include practical tools and techniques (e.g., freedom of information programs; open procurement processes) used by governments for implementing two dimensions of transparency: transparency of information and transparency of process.

The second section on external or public accountability summarizes a variety of approaches used to inform and engage the public, civil society, and stakeholders in the policy process. Policy quality is improved if those affected by a policy are meaningfully involved in the development and ongoing assessment of that policy.

The third section on service quality reviews how governments are attempting to improve service quality and responsiveness through increasingly and systematically designing and delivering programs from the service recipient's rather than the service provider's perspective.

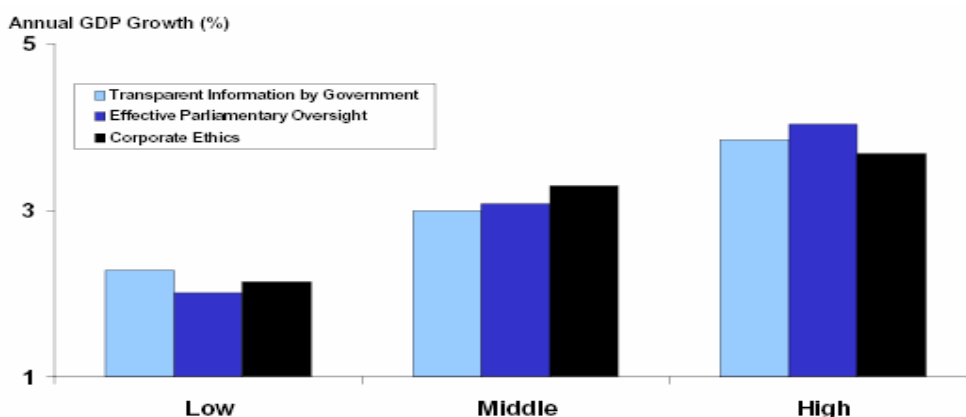
The final section reviews the current situation in these areas within the Russian Federation and suggests some priority measures which could be pursued to strengthen transparency, public accountability and service quality under the administrative reform program.

3.1 Transparency

The importance attached by reformers to increasing transparency is reflected in the inclusion of this as a component in most public administration reform programs. Although definitions vary, transparency is typically positioned alongside or as a component of open government or accountability. The OECD has defined transparency as “meaning that reliable, relevant, and timely information about the activities of government is available to the public.”³⁷

Transparency helps make governments more accountable, combats corruption, promotes good governance, improves policy quality, increases government efficiency, and supports economic growth. World Bank research has established that increasing transparency contributes to the reduction of corruption and more efficient use of public funds. The Bank has also highlighted, through its executive opinion survey, a correlation between economic growth and transparency.

Chart 1: Transparency and GDP Growth

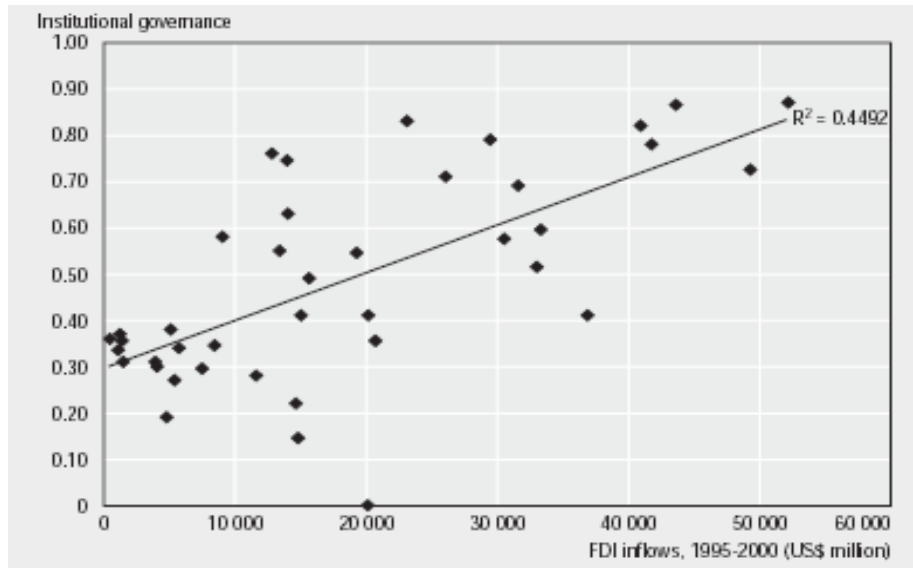


Source: Kaufmann. *Rethinking Governance. Empirical Lessons Challenge Orthodoxy*. World Bank 2003

The OECD concluded that transparency was a contributing factor to higher rankings on the quality of institutional governance index (comprising qualitative evaluations of the rule of law, the judicial system, enforcement, corruption, and shareholder and creditor rights) which, in turn, contribute to increased foreign direct investment in the economy (Chart 3.2).

³⁷ From OECD’s “Open Government; Fostering Dialogue with Civil Society.” A useful list of definitions can be found in *OECD, Public Sector Transparency and the International Investor, Box 2, p.19*. One definition of transparency, from the *Conceptual Dictionary: Utstein Anti-Corruption Resource Centre*, is: **Transparency** is the principle that those affected by administrative decisions should be informed, and the duty of civil servants, managers and trustees to act visibly, predictably and understandably. Transparency thus encompasses *access, relevance, quality and reliability*, and describes the *increased flow of timely and reliable economic, social, and political information*.

Chart 2: Quality of Institutional Governance and FDI



Source: *Public Sector Transparency and the International Investor*. OECD. 2003.

3.1.1 Transparency of Information

At a basic level, transparency exists when information is readily available on government laws, regulations and activities; and when that information is accurate, accessible, comprehensive, easily interpreted and high quality. This information should be capable of being obtained without effort and be voluntarily and freely provided to the public. Numerous approaches are found, from government information centers to user friendly websites to information enquiry numbers in all ministries. At the heart of transparency is whether or not public access to information is legally guaranteed.

Freedom of Information Legislation

An essential step in ensuring government transparency is the adoption of a freedom of information (FOI) law. Currently, 52 countries have passed FOI laws. This is a recent phenomenon : 40 FOI laws have come into force since 1992 with 20 of these approved over the last four years.³⁸ Although 80% of OECD countries had FOI laws in place in 2003, only 20% had such legislation in 1980.

While the detailed provisions of FOI legislation vary from country to country, core provisions of the legal framework necessary to ensure transparency of public information include:

- establishing that all information held by the civil service should be accessible to the public;

³⁸see www.pcij.org - for latest update on numbers

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- establishing that all persons can request information without need to give the reason and regardless of their citizenship;
- defining a set of exemptions on disclosure, such as harm to national security or protection of personal privacy and establish a balancing test for weighting exemptions against democratic and public interest in releasing the information;
- setting out mechanisms for accessing information and requiring authorities to appoint information officers and/or establish public offices where people can request information;
- setting out the timescales for providing the information;
- requiring authorities to reply to all requests and to provide reasons if information is refused as well as to establish appeals mechanisms for challenging refusals to provide information;
- requiring authorities to publish annual reports and accounts, and details of policies and decisions taken;
- requiring authorities to keep track of requests and make this information public;
- establishing a special body that hears challenges to refusals and promotes government compliance with freedom of information law, such as an ombudsmen or information commission.

Enforcement of FOI Laws

Effective FOI laws need to be supported by strong implementation mechanisms. These may include establishing oversight institutions, an effective appeal process, clear reporting procedures, penalties for non-compliance, education and training programs for public servants, and clear consultation procedures.

New Zealand's FOI legislation is primarily enforced by the Ombudsman who reviews appeals when information is withheld. The *Official Information Act* (1982) permits withholding in only two instances: *conclusive withholding* when disclosure is likely to prejudice or injure national security or defense, international relations, law application and enforcement, personal safety or the economy; and *defensible withholding* which contains twelve categories, including protection of individual privacy and of commercially sensitive information. The decision of the Ombudsman may be vetoed by the Cabinet, but in practice this veto has not been used during the past fifteen years. Where the withholding body doesn't fulfill the recommendation of the Ombudsman within the legally established period of time, the case may be referred to the Attorney General who ensures the enforcement of the decision through the High Court.

In Ontario, an Information and Privacy Commissioner reporting to the legislature administers the province's FOI legislation. In this role, he may investigate public complaints and resolve appeals. He also publishes an annual report with the compliance records of each ministry and recommendations for improvement.

The UK Government has recently put in place FOI measures:

Box 2: Measures for Implementation of Freedom of Information Legislation in the UK

- Appointing an independent Information Commissioner to police the Act and handle appeals : the Commissioner will report to the judiciary, not the executive branch, and have wide-ranging powers, including the power to order the release of information
- Creating a new criminal offence for the willful or reckless destruction, alteration or withholding of records relevant to an investigation of the Information Commissioner
- Setting out a clear review and appeals mechanism
- Educating and training the public sector for a culture change
- Requiring public organizations routinely to publish raw data and facts
- Giving greater access than ever before to personal information
- Improving public right of access to historical records
- Consulting widely for three months prior to publication of a draft Bill.

The consequences of a robust FOI regime can be far-reaching, empowering public monitoring of government policies, deterring corrupt practices, and reducing inefficient use of public resources. The table below cites concrete examples where sanctions have been applied for inappropriate or illegal behavior.

Table 1: Impact of Adoption of Freedom of Information Laws³⁹

Impact	Examples
Combating corruption and waste of public funds	<p><i>Mexico:</i> FOI Law approved in 2003 requires that certain information, including <u>detailed budgets, be published automatically</u> by all bodies covered by the law. Such publication revealed information on bonuses that had no legal basis and exceeded the basic salary of employee in publicly funded university and revealed suspiciously high spending on goods and services.</p> <p><i>Japan:</i> Private lawyers used local-government level access to information laws to force the <u>release of reports on the expense accounts for local government officials</u>. Reports revealed huge line items for entertaining visiting bureaucrats. As a result, between 1995 and 1997, Japan’s 47 prefectures cut their food and beverage budgets by the equivalent of more than \$100 million.</p>
Protecting social and economic rights	<p><i>India:</i> Disclosure of information revealed that local government officers were diverting funds destined for development projects. Also, the information showed that State Electricity Board which had been receiving compensation in order to charge educational institutions concessional rates for power consumption, had in fact been billing municipal schools at the commercial rate. As a result, official actions were taken.</p>
Discouraging the use of public funds for personal interests	<p><i>Canada:</i> In the 1980s a Minister had to resign after the media used Access to Information Act to reveal that she had spent five days in Paris at public expense to attend one-hour meeting.</p>

³⁹ Source: Based on case descriptions from Anticorruption at the crossroads, LGI, 2004. For more examples of case studies and international right-to-know news stories, please visit <http://www.freedominfo.org/survey.htm>

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3.1.2 Transparency of Process

Critical areas where transparency is perhaps particularly important and which need to be tackled early in the public administration reform process include financial management, procurement, regulatory regimes, and human resources management.

Transparency in Financial Management

Fiscal transparency emphasizes being open to the public about the structure and functions of the government, fiscal policy intentions, public sector accounts, and fiscal projections. Transparent public financial management processes are central to good governance and achieving macroeconomic stability and high-quality growth. The *IMF Code of Good Practices in Fiscal Transparency (IMF Code)* was designed to help transition and developing countries design and implement sound public finance systems. Its four general principles include:

- *Clarity of roles and responsibilities.* The structure and functions of the government should be clearly specified. An institutional table showing the structure of the government and the rest of the public sector should be published.
- *Public availability of information.* Budget documentation and other fiscal reports for the public showing all budgetary and extra-budgetary activities of the general government (both central and sub-national), including contingent liabilities, tax expenditures, public debt, financial assets should be made available to the public. Publication of fiscal information should be a legal obligation of the government.
- *Open Budget Preparation, Execution and Reporting.* The annual budget should be prepared and presented within a comprehensive and consistent quantitative macroeconomic framework with main assumptions underlying the budget provided. Budget data, including the data on extra-budgetary activities, should be reported on a gross basis, distinguishing revenue, expenditure and financing. Mid-year report on budget developments as well as final accounts should be presented to the legislature in a timely manner and should be available to the public.
- *Assurances of Integrity.* Budget data should be available to independent scrutiny. A national audit body should provide timely reports to the legislature and public on the financial integrity of government accounts.

The IMF Code is accompanied by the *IMF Manual on Fiscal Transparency* which sets out in detail the principles and practices derived from the Code, a fiscal transparency questionnaire, and a self-evaluation report. Best practices for fiscal transparency are summarized in *OECD Best Practices for Budget Transparency*. These are set out in the box below, followed by measures adopted by Sweden to codify fiscal transparency in the budget process.

Box 3: OECD Best Practices for Budget Transparency

OECD summarizes best practices in fiscal transparency by listing the principal budget reports the government should produce (including long-term and pre-election budget reports) with specific guidelines on the timing and the contents of the reports; and highlights practices for ensuring the quality and integrity of fiscal reports. The OECD practices go beyond the IMF Code by introducing medium-term budgeting principles to allow revenue and expenditure developments to be analyzed for a period of usually two years beyond the next fiscal year, and requiring separate presentation of ear-marked revenues and user charges. All budget reports should be prepared based on the same accounting policies, with a dynamic system of internal control to ensure the reports' integrity in place. All fiscal reports should be made publicly available free of charge and the Ministry of Finance should actively promote an understanding of the budget process by individual citizens and NGOs. Such practices should be applied to the whole general government.

Box 4: Developing Fiscal Transparency in Sweden

Growing budget deficits and sharp deterioration of public finances in Sweden in the early 1990s stimulated Swedish government to undertake significant budget reforms through introduction of a multi-year budget framework and top-down budget process. The timetable of the budget formulation was substantially revised which facilitated disciplined budget preparation on the part of the Ministry of Finance and line ministries that now enjoy more flexibility in allocating the funds within 27 core expenditure areas.

The reforms also allowed for more efficient scrutiny of the budget by Parliament with such scrutiny now divided into two phases. In the first phase, in spring, the Parliament reviews and approves the Government's Spring Fiscal Policy Bill which establishes the overall level of expenditure for the coming year and the following two years as well as indicative funding levels for each of the expenditure areas. In autumn, Parliament reviews the complete Budget Bill and approves the final allocation between areas (by the end of November) and individual appropriations within each of the areas (by the end of December). Non-financial (performance) data is taken into account during the budget consideration based on annual reports prepared by all agencies. However, the quality of these reports varies and the performance data does not have a significant impact on fiscal decisions.

Source: Jon R. Bloendal. Budgeting in Sweden. OECD Journal on Budgeting, 2001 pp.27-57

Transparency in Public Procurement

Transparency in public procurement supports more efficient allocation of public resources and fair competition, thereby contributing to economic development and reducing rent-seeking and corrupt practices. OECD SIGMA emphasizes the importance of a transparent procurement process at each stage of procurement, from selecting bidders to tendering to contract award.⁴⁰ The need for continued vigilance in the area of transparent procurement was underscored in the recent OECD regulatory survey which revealed poor transparency in public procurement in 3 of the 12 OECD countries surveyed.

⁴⁰ Public Procurement. SIGMA Policy Brief No. 3.

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“In markets where the Government is a major procurer of goods and services, its own actions may greatly influence how the market operates and therefore impact on competition and on the long-term value for money it can secure. So for procurement, ensuring value for money and encouraging strong competition go hand in hand.”

Source: Pre Budget Report, UK, November 2002

A recognized source of international best practice for public procurement is the *UNCITRAL Model Law on Procurement of Goods, Construction and Services*.⁴¹ It is designed for countries introducing procurement laws or reforming existing procurement systems, with a view to achieving economy and efficiency in public procurement and reducing corruption. The model law also seeks to promote international competition in public procurement markets. Sample provisions are set out in table below.

Table 2: Ensuring Transparency in Procurement Process: UNCITRAL Model Law Provisions

Process Stage	Mechanisms to Secure Transparency and Accountability (with reference to appropriate Model Law articles)
General provisions	<i>Public Accessibility of legal texts</i> , including procurement regulations, all administrative rulings, and directives of general application in connection with procurement (Art. 5)
	<i>Procedures for making records of procurement proceedings available</i> after the tendering procedure to any person and certain documents available to suppliers or contractors that submitted a tender or applied for pre-qualification (Art. 11)
	<i>Form of communications</i> between the procuring entity and suppliers and contractors (Art. 9)
	<i>Language of documents</i> for solicitation of tenders, proposals, offers or quotations
Solicitation of tenders	<i>Publication of invitation to tender or to pre-qualification</i> in: (i) state gazette or other official publication; and (ii) in a newspaper of wide international circulation or in a relevant trade publication or technical or professional journal of wide international circulation (Art. 24)
	<i>Requirements to the notice of solicitation of proposals</i> (Art. 37, para. 1, 2)
	<i>Minimum information to be included in the request for proposals</i> (Art. 38)
Pre-qualification proceedings	Procuring entity shall provide a set of prequalification documents to each supplier or contractor that requests them in accordance with the invitation to pre-qualify (Art.7, para 2-3)
	Notification to each supplier or contractor submitting an application to pre-qualify and public availability of the names of all suppliers or contractors that have been pre-qualified (Art.7 para 6)
Evaluation and comparison of tenders	Attendance of contractors or suppliers that submitted bids, or their representatives the procedure of bids opening (Art. 33)
	Only criteria set forth in solicitation documents used for evaluation and comparison of tenders (Art. 34, para 4a; Art. 39, para 1)
Post-evaluation procedures	<i>Public notice of procurement contract awards</i> (Art. 14)
	<i>Right to review</i> - any supplier or contractor that claims to have suffered, or that may suffer, loss or injury due to a breach of a duty imposed on the procuring entity by this Law may seek review (Art. 53 – 57)

The legal regime must be reinforced by effective management systems which clearly allocate procurement responsibilities; and accountability and monitoring systems

⁴¹ <http://www.uncitral.org/english/texts/procurem/ml-procure.htm>

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which ensure that decisions comply with laws and regulations. These control systems should be externally audited by the national supreme audit institution. Training and skills upgrading of procurement officials should be prioritized.

Transparency in Regulation Making

The costs and uncertainty of doing business in a complex or non-transparent regulatory environment constitute a major consideration in investment decisions. The OECD has long emphasized the critical importance to a nation's economic development of a transparent regulatory process, including increased productivity, lower prices, and greater innovation and consumer choice. OECD's 1997 *Report on Regulatory Reform* identified several key characteristics of a transparent regulatory regime, including:

- ensure that reform goals and strategies are articulated clearly to the public;
- consult with affected parties, whether domestic or foreign, while developing or reviewing regulations, ensuring that the consultation itself is transparent;
- create and update on a continuing basis public registries of regulations and business formalities, or use other means of ensuring that domestic and foreign businesses can easily identify all requirements applicable to them;
- ensure that procedures for applying regulations are transparent, non-discriminatory, contain an appeals process, and do not unduly delay business decisions.

Although much progress has been made, significant challenges remain. A recent OECD survey found that 5 of 12 surveyed OECD countries provided poor access to information on existing regulations, especially to SMEs, foreign traders and investors. Two-thirds of the surveyed countries conducted no systematic public consultation, did not prepare regulatory impact assessments, administered overly complex regulatory regimes and difficult to understand regulations, and provided very poor transparency at sub-national levels.

Box 5 – Transparent Regulatory Reform in the UK

The Regulatory Impact Unit in Cabinet Office oversees a published plan [*Regulatory Reform – The Government's Action Plan – 2003*] that identifies the deregulation initiatives underway (650 are identified in the current plan). The unit also publishes statistics on the number of new regulations approved annually in the United Kingdom – 3,926 in the last year reported, of which 10% affected business.

Transparency in Human Resource Management (HRM)

Successful development of a professional civil service depends, to a significant degree, on the credibility and fairness with which its human resource management (HRM) system is perceived. Fundamental to this is transparency of all HRM processes, including recruitment, remuneration, promotion, career development, and dismissal procedures. Transparency underpins public service ethics and can usefully be enshrined as a principle in a country's civil service law.⁴² The World Bank cited

⁴² Bram Steijn. *HRM in Public Sector: A Neglected Subject*. OECD Human Resources Management Working Party Meeting, 2002

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an open, merit-based HRM system as the primary determinant of public sector productivity.⁴³

Open Recruitment and Promotion Practices. Selection and recruitment procedures used in the public sector should be transparent and applied fairly and equitably. Procedures should be published, actual proceedings documented, and appeals permitted. Governments may vary with respect to the way this is assured, but competitive selection and the merit principle are the essential components of a transparent system.

Box 6: Recruitment and Promotion Practices: Examples from OECD countries

During a recent HRM reform, *Denmark* introduced a new job database comprising all the vacant jobs in central government sector and accessible through Internet at www.job-i-staten.dk.

South Korea has opened 20% of the top civil service posts for open competition through the Open Competition Position System that allows for application of the candidates both from the public and the private sectors. Initial operation of this system proved successful with average number of candidates per position exceeding four and more than 80% of positions filled by external candidates. According to the Government reports, this merit-based system helped to enhance the level of public sector expertise and stimulated both internal and external competition.

In *Canada*, HRM processes in public service are codified in the Public Service Employment Act (PSEA) and some related documents that set a framework for all personnel-related decisions in the Canadian civil service (including selection, recruitment, promotion, deployment, and appeals mechanisms). Effective January 1, 2005, a new PSEA entered into force to support a move from the rules-based concept of “merit” to a values-based approach allowing managers to hire qualified and competent individuals. Under this law, during the selection some categories of employees (surplus employees, persons on leave, minister’s staff), as well as internal candidates at large should be considered first, while open competitive selection is also possible. PSEA provides for a wide range of appointments types, including casual short-term assignments, fixed-term contracts and indefinite assignments.

Sources: Canada Public Service Employment Act; Kirsi Aijala. Public Sector – an Employer of Choice, OECD 2002

Performance-Related Pay (PRP). A majority of OECD countries use some form of PRP in their civil service for most or all groups of employees. The pay system should be used to help create incentives to facilitate growth of a performance-oriented culture. PRP systems need to be based on transparent regulations concerning how performance-related bonuses are allocated. Canada’s “at-risk-pay” offers one such example.

Box 7: “At-Risk-Pay” in Canada

Under “at-risk pay” system, all senior public servants in Canada became eligible to earn each year a lump sum payment based on their performance against the established targets. These targets are agreed upon at the beginning of each fiscal year between executive and his/her superior and include commitments with respect to on-going responsibilities of the executive as well as some commitments related to key activities to be carried out. The amount of “at-risk” pay varies between 10%-25% of the base salary.

⁴³ *Understanding Public Sector Performance: An Empirical Contribution.* World Bank, 2003.

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Disclosure of Salaries: In some governments, civil servant salaries are publicly disclosed.

Box 8: Ontario Public Sector Salary Disclosure Act

Since 1995, in Ontario it is required to disclose annually the names, positions, salaries and benefits of employees paid \$100,000 or more per annum. The requirement applies to civil servants, municipal servants, employees of provincial corporations, public organizations (such as schools, universities, hospitals.). It is required that salary information be made available to the public free of charge.

Conflict of Interest. Over the past decade, over one-third of OECD member countries updated legislation and regulations reflecting their changing and desired core public service values. “Traditional” values such as impartiality, legality and integrity were re-emphasized and new values such as transparency and efficiency were added to reflect an increasingly results-based public service culture. Several countries have passed laws to provide for more transparency and redefine the boundaries with respect to conflict of interest. For example, Italy and Japan have laws obliging senior public servants to disclose personal assets. Almost all OECD countries have developed a more detailed description of the standards expected of all public servants in potential conflict-of-interest situations, particularly in relation to: (i) using official information and public services; (ii) receiving gifts or benefits; and (iii) working outside the public service, including political activities. Supplementary guidelines are often applied for specific professional groups working in sensitive areas.

Appeal/Grievance Mechanisms. Appeals and grievance mechanisms are a key part of the system of checks and balances in civil service HRM. Such processes are often set out in legislation or contained in collective agreements. Key areas subject to appeal may include decisions concerning hiring, promotion, discipline or dismissal.

Box 9: Public Service Commission in Canada – Appointment-Related Appeals

The Resource Branch of the Public Service Commission (PSC) in Canada is in charge of consideration of appeals related to recruitment process. Unsuccessful candidates may file an appeal within 14 calendar days after they were notified about non-selection, after which PSC considers the appeal, organizes a disclosure of all related documents, conducts a hearing followed by a decision by an appeal board. Should the appeal be not satisfied, the appellant may initiate a legal procedure in court.

Source: http://www.psc-cfp.gc.ca/recours/recours_e.htm

3.1.3 Transparency Tools

Over the past decade, a number of tools have been developed by international organizations, governments, and NGOs to support achieving increased public sector transparency. These tools include various codes, manuals, toolkits, diagnostics, surveys and standards.

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Table 3. Transparency Tools Available to the Government

Tool	Short Description
I. Transparency of Information	
TI Source Book 2000, chapter 24	Provides an overview of access to information issues with particular best practices examples, as well as some indicators of access to information effectiveness and quality of public records. http://www.transparency.org/sourcebook/24.html
TI Corruption Fighters' Toolkit, Section IV	Contains a set of tools used in various countries that could be used to improve access to information. http://www.transparency.org/toolkits/2002/index.html
II. Transparency of Process	
II. Transparency in Financial Management	
IMF Code of Good Practices in Fiscal Transparency*	Designed to support countries in developing sound public finance systems. Identifies four general principles for fiscal transparency and lists good practices in the fiscal transparency area. http://www.imf.org/external/np/fad/trans/code.htm
IMF Manual on Fiscal Transparency	Sets in detail the principles and practices included in the Code above and contains numerous references and website addresses that can assist in practical implementation of the Code. http://www.imf.org/external/np/fad/trans/manual/
IMF Questionnaire on Fiscal Transparency	Provides a systematic means for country authorities to review the transparency of their country's fiscal management system in relation to the Code of Good Practices on Fiscal Transparency. Completion of the questionnaire is also an important first step in the preparation of a fiscal module of a Report on the Observance of Standards and Codes (ROSC). http://www.imf.org/external/np/fad/trans/question/quest.htm
OECD Best Practices for Budget Transparency	Summarizes best practices in fiscal transparency: lists the principal budget reports the government should produce (including long-term and pre-election budget reports) with specific guidelines as far as the preparation, timing and the contents of the reports are concerned; and highlights practices for ensuring the quality and integrity of fiscal reports. This set was designed for advanced economies. http://www.oecd.org/dataoecd/33/13/1905258.pdf
IMF Code of Good Practices on Transparency in Monetary and Financial Policies*	Contains a listing of broad principles related to transparency for monetary and financial policies that central banks and financial agencies should seek to achieve. http://www.imf.org/external/np/mae/mft/index.htm
IMF Supporting Document to the Code of Good Practices on Transparency in Monetary and Financial Policies	Provides a fuller description of each of the transparency practices of the Code above; the rationale for the practices in the context of transparency; examples of how the transparency practices are applied by central banks and financial agencies (including alternative ways to achieve the objective); and some considerations concerning implementation. http://www.imf.org/external/np/mae/mft/sup/index.htm
III. Transparency in Procurement	
Pacific Basin Economic Council Standards for Transactions	Contains a set of standards of behavior that businesses should follow to ensure integrity, transparency and accountability in transactions between enterprises and public bodies. The statement of standards was approved by PBEC – an association of senior business leaders

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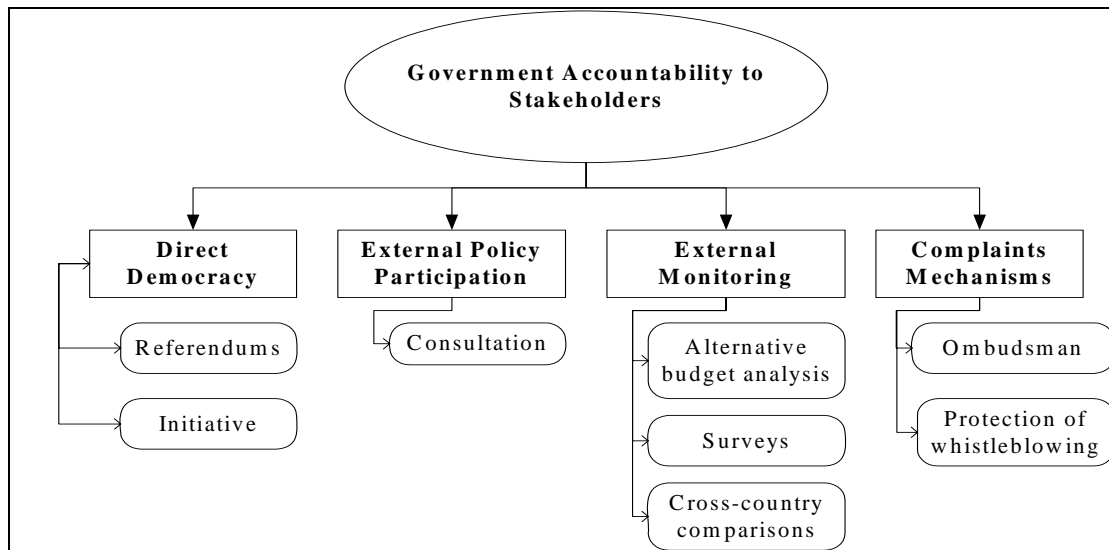
between Businesses and Governments	representing more than 1,200 businesses in 20 countries. http://www.pbec.org/policy/1997/transpar.htm
TI Source Book 2000, Chapter 22	Contains principles of fair and efficient procurement, as well as measures that could be helpful to improve transparency of procurement processes, as well as some indicators for assessing the level of corruption in public procurement. http://www.transparency.org/sourcebook/22.html
TI Corruption Fighters' Toolkit, Section II	Contains a set of tools used in various countries to combat corruption in public procurement and improve the transparency of procurement process http://www.transparency.org/toolkits/2002/index.html
IV. Transparency in Developing Regulatory Framework	
UK Better Policy Making: A Guide to Regulatory Impact Assessment	Presents a tool which informs policy decisions through assessing the impact of policy options in terms of the costs, benefits, and risks of proposals. Includes guidance on stakeholder consultation processes. http://www.cabinetoffice.gov.uk/regulation/ria-guidance/
OECD Recommendations on Regulatory Reform	Presents recommendations related to improvement of the quality of government regulation and sets out a comprehensive plan for implementation of regulatory reform. http://www.oecd.org/document/38/0,2340,en_2649_37421_2753254_119820_1_1_37421,00.html
V. Transparency in Human Resources Management	
New Zealand Public Service Code of Conduct	Sets out the core principles of the public service in the country. The web-site also provides some resources (including videos) that are used to improve awareness about moral values and standards of behavior. http://www.ssc.govt.nz/display/document.asp?navid=151
Public Service of Canada Staffing Manual	Provides detailed guidance on the process of selection and recruitment to the Canadian civil service. http://www.psc-cfp.gc.ca/staf_dot/pol-guid/chap_01/index_e.htm

**Note: Implementation of these Codes is monitored by the IMF through Reports on Observance of Standards and Codes. Reports summarizing countries' observance of these standards are prepared and published at the request of the member country. They are used to help sharpen the IMF's policy discussions with national authorities, and used also in the private sector (including by rating agencies) for risk assessment. Short updates are produced regularly and new reports are produced every few years. For more information, see <http://www.imf.org/external/np/rosc/rosc.asp>*

3.2 External Accountability

Over the last decade, the emphasis on securing appropriate external accountability of a country's civil service to the public has increased significantly. Approaches borrowed from the private sector such as "customer service" have become common, as have mechanisms to ensure greater input from the general public and stakeholders. At the same time, NGOs have assumed a more prominent role in monitoring government policies and actions or, in some cases, proposing alternative policies and budgets. Legislation based on a specific referendum has become more popular. Common elements of a system for public accountability are illustrated below.

Chart 3: Government Accountability to Stakeholders: Core Mechanisms



3.2.1 Complaint Mechanisms

A common mechanism for assuring the public of their being able to register a complaint against a government official or action is an Office of the Ombudsman. The first Office was established in Sweden in 1809. Such systems became much more widespread during the 1950s. Generally, Ombudsmen are appointed and report to Parliament, not the Government of the day, and are in charge of reviewing citizens' complaints in various areas, such as physical damage and freedom of information. In some countries (e.g., Sweden) in addition to Parliamentary Ombudsmen special Ombudsmen have been appointed by the Government to review issues such as consumer rights, discrimination, children's rights, and rights of the disabled.

Government accountability may be also ensured through other offices that may be established at both the central and the regional level. For example, Ontario has established a number of special parliamentary offices to protect the public interest, including offices and commissioners for the Environment, Information and Privacy, Human Rights, Integrity, and Pay Equity.

A further mechanism adopted in a number of countries, including Canada, New Zealand, the United Kingdom, and the United States is internal whistleblowing protection. This allows civil servants to disclose wrongdoing by the government without threat of reprisal.

3.2.2 External Monitoring

NGOs and international organizations that monitor and compare the decisions or actions of governments can make a fundamental contribution to strengthening external accountability. Such monitoring can occur in a number of different ways, including the creation of comparative indices or the active monitoring of a specific set

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of government policies, such as budget execution or application of access to information legislation.

Experience suggests that over-reliance on internal checks and balances in the public administration system may lead to abuse of power and corruption. Such a situation can be exacerbated if that country's supreme audit institution lacks authority or capacity (or both). In this case, active engagement of civil society and NGOs in monitoring government activities becomes critically important through making the system demand-driven and introducing a consumer perspective into government/public interaction process. International experience includes a range of possible approaches to external monitoring which are set out in the table below.

Table 4: Alternative Approaches to External Monitoring of Government Activities

Tool	Short Description	Implementation Results
<i>Report Cards</i>	Interviews of service users in respect of possible "extras" they had to pay in order to get legitimate services. The results are discussed with public authorities and widely published.	The approach was pioneered by the Public Affairs Centre of Bangalore (India): various NGOs are now trained around the world to use these report cards.
<i>"Big Mac" Surveys</i>	Comparative analysis of prices and charges paid by various departments for similar goods.	Approach developed and piloted in Argentina . During one of such analyses, it was found out that identical supplies were purchased by different hospitals from the same supplier at very different prices. Once the offenders had been identified, official action was taken.
<i>Before and After Surveys</i>	A survey of costs of different public investments is conducted before and after an anti-corruption campaign.	In Milan (Italy), such analysis related to " <i>Clean Hands</i> " campaign in early 1990s revealed that the campaign helped to significant reduction of municipal dept, rapid growth of direct investment, and the new international airport actually cost twice less than estimated at the planning stage.
<i>Value for Money</i>	Assessment of the costs and results of public transactions using the information on prevailing prices of goods and services.	The approach was applied in Nigeria in 1999, when outstanding government contracts were reviewed.
<i>"Mirror Statistics"</i>	Comparison of prices of goods traded between two countries using import and export information. Cooperation with customs authorities is required.	The approach was used as a form of civil society monitoring in Bulgaria and Romania .

Source: TI Source Book 2000, p. 291-294

In India, an NGO performs an independent review of the budget to make sure that spending of public funds conforms to the economic and social priorities and that funds intended for reducing poverty actually were directed to this goal.

Box 10: Alternative Budget Monitoring in Gujarat, India: DISHA Project

The Developing Initiatives for Social and Human Action Project (DISHA) undertook an alternative review of the budget with the objective to analyze how the objective of poverty reduction proclaimed by the Finance Minister is reflected in the actual budget allocations. DISHA’s alternative budget analysis achieved a budget with fewer arithmetical and accounting mistakes and managed to focus the debate of the legislature on making sure that financial numbers and trends support the achievement of particular policy objectives. Since then, allocations to priority sectors have been made more carefully.

3.2.3 External Policy Participation

Governments have been engaging the public and stakeholders in policy consultations for decades. However, it is only in the last 20 years or so that such practices have been institutionalized, in some instances by law.

The rationale for engaging the public and stakeholders in policy development is compelling: such an approach:

- avoids problems and delays at the implementation stage –end users can often anticipate problems that government officials would otherwise overlook;
- builds support for the policy; i.e., may result in third-party endorsement;
- improves policy quality as a wider range of concerns go into its development;
- may identify hidden costs to business, individuals or the government.

A sample of such consultation mechanisms is set out in the table below.

Table 5 - Consultation Mechanisms

Mechanism	Examples
Complaints/ Suggestions/ Testing	<ul style="list-style-type: none"> • <i>User comments</i> and complaints • Feedback from staff/suggestions schemes • <i>Mystery shopping</i> - someone commissioned so to do tests the service, looking at a number of predetermined areas, and then reports back • <i>Piloting changes</i> - trying out changes on a small area of your service is a useful way to test whether those changes are going to work for the whole service
Meetings and Discussions (Qualitative)	<ul style="list-style-type: none"> • <i>Open/public meetings</i> - meetings arranged for members of the public to find out about and express their views on a particular issue • <i>Using representative groups</i> - Many, mainly voluntary, organizations know what is happening on the ground, and are in a good position to reflect what users think about services and the problems they have • <i>Face-to-face interviews</i> - reveals what people think and why, and allows for in-depth exploration of their views, attitudes, behavior or motives • <i>Focus groups</i> - Focus groups are normally made up of around 8-10 people led by a trained facilitator in a one-off discussion on a particular topic • <i>User panels</i> - A user panel allows a small group of users and senior managers to discuss user concerns -a focus group usually only meets once, a user panel will meet regularly over an extended period

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	<ul style="list-style-type: none"> • <i>Citizens' panels</i> - Citizens' panels (which are larger than user panels) comprise a significant sample of citizens (usually between 600 and 2,500 a national panel would be bigger), and are structured to be representative of the relevant population • <i>Citizens' juries</i> - a structured method of obtaining detailed, considered views from members of the public on particular issues : juries are usually made up of 12-16 lay people (neither experts in the particular issue nor members of interest groups), who hear evidence from a range of specialist witnesses over several days and draw conclusions
Surveys (Quantitative)	<ul style="list-style-type: none"> • <i>Questionnaire-based surveys</i> - Provides views from a widely representative group of users (and non-users), and can give statistically reliable information • <i>Ballots/referenda</i> • <i>Deliberative polling</i> - In deliberative polling, a representative sample of people is initially polled on an issue : they then learn more about the topic through being given information, asking questions and participating in discussions, and at the end of the process are polled again
Inviting written comments	<ul style="list-style-type: none"> • Written consultation exercises are designed to provide a formal means by which people can be invited to comment on policies and proposals
Visuals and Presentations	<ul style="list-style-type: none"> • <i>Open days/exhibitions</i> – formal or informal occasions when users (and potential users) can find out about a particular service, meet staff, ask questions • <i>Roadshows</i> – similar to open days and exhibitions, except that a service goes out to communities rather than expecting them to come to the service • <i>Information technology</i> – consultations via internet

Source: Guidance for the use of the Code of Practice on Consultations:

<http://www.cabinetoffice.gov.uk/regulation/consultation-guidance/content/introduction/index.asp>

Singapore's consultation portal represents a strong public accountability initiative.

Box 11: Singapore Government Consultation Portal

The Government Consultation Portal in Singapore is run by a Feedback Unit established in 1985 as a part of consultative government and intended to solicit feedback from the public to help shape the government policies and serve as a communication channel informing the public of government initiatives. The directions for the Unit's operations are set by a *Feedback Supervisory Panel* comprising an equal number of members of parliament and private sector representatives. Operations include *dialogue sessions* on a wide range of national policy issues open to all citizen for participation; *tea sessions* with various groups of stakeholders; *public fora* explaining national policies to the public; *indicative and representative polls* used for obtaining quick feedback on time-sensitive issues; *feedback groups* intended for discussions chaired by people-private sector representatives; and *the people's forum* – a pool of regular feedback contributors invited for the Unit's activities.

Source: <http://www.cutredtape.gov.sg/>

The question of whether the practice of external consultation should be set out in legislation remains open to debate. The Czech example below suggests that a varying quality of external consultation may sometimes be due at least in part to the lack of a consistent legal framework. On the other hand, this could be simply deemed a policy management issue that could be resolved through a stronger accountability mechanism.

Box 12: External Consultation in Czech Republic

Czech experience presents valuable lessons for the external participation debates. The Czech Republic was one of the first transition economies to institutionalize social dialogue through setting up a *Council for Economic and Social Agreement*, a consultative body involving the government, trade unions and employers. Originally, the Council focused on Labor Code issues, but in late 1990s it expanded the areas of interest to health, safety, taxes and social security. The value of the forum for social dialogue varied given that in some years there was disagreement and an inability to achieve consensus. However, introduction of new rules and operational procedures improved the situation.

In broader terms, while Czech administration uses consultation mechanisms (including various working groups and commissions), the actual value of such consultations varies. Since there is no legal requirement to consult with all affected groups, ministries have significant discretion over selection of the parties to be consulted, the material to be taken into account of and the period of consultation. Some groups have traditionally been not well represented in these consultations.

Source: Regulatory Reform in the Czech Republic. Government Capacity to Assure High Quality Regulation. OECD 2001.

The UK uses a non-legalistic approach whereby a methodology for external consultation is established in a code of practice.

Box 13: The UK Code of Practice on Consultation [2000, revised in 2004]

The Code defines six consultations criteria:

1. Consult widely throughout the process, allowing a minimum of 12 weeks for written consultation at least once during the development of the policy
2. Be clear about what your proposals are, who may be affected, what questions are being asked and the timescale for responses
3. Ensure that your consultation is clear, concise and widely accessible
4. Give feedback regarding the responses received and how the consultation process influenced the policy
5. Monitor your department's effectiveness at consultation, including through the use of a designated consultation coordinator
6. Ensure your consultation follows better regulation best practice including carrying out a Regulatory Impact Assessment if appropriate.

Though the code does not have legal force it is regarded as binding on UK departments and their agencies unless Ministers conclude that exceptional circumstances require a departure from it. The assessments of the consultation mechanism conducted in 2001 and 2002 for 12 departments confirmed overall conformity with the Code: about 350 written consultations are conducted per annum and nearly 80% of consultations meet the timing requirements of 12 weeks. In 2002, the total number of national consultations accounted for 621 (of which 128 were conducted by Food Standards Agency) with only 4 complaints received about the consultation process.

Source: <http://www.cabinet-office.gov.uk/regulation/consultation/code.asp>

3.2.4 Direct Democracy

The most well-known instrument for direct democracy is the referendum. Direct democracy explicitly engages the general population in the policy and legislative processes.

Referenda are governed by legislation or, in some cases, a country's Constitution. Numerous variations exist with respect to the type of issues covered, threshold requirements, and whether or not the result is legally binding.

Box 14: Direct Democracy in Switzerland

In Switzerland both referendums and initiatives are important at the national level, at the cantonal level, and in the communes, and there is a very long tradition of direct democracy. Three types of referendums are in place: (i) *mandatory, constitutional referendums* called when any change to constitution is initiated; (ii) *popular referendums* that allow to reject any law passed by the federal legislature and can be arranged if demanded by 50,000 citizens or by 8 cantons; and (iii) *constitutional initiative* that allows a group of citizens to bring a proposal for partial or complete change of the constitution.

The number of *initiatives* submitted in Switzerland has radically increased from the average of 1.3 per year in 1960s to 4.6 in 1980s.

Source: Erik Moberg, Positive And Normative Aspects Of Direct Democracy - The Case Of Sweden In A General Context. 1999

The incidence of referenda in a range of countries is set out below.

Chart 4. - Number of National Referendums since 1945 till the mid-1990s

Argentina	1	Mexico	0
Australia	23	Nepal	1
Austria	1	New Zealand	10
Bangladesh	2	Norway	1
Belgium	1	Philippines	11
Brazil	4	Poland	5
Canada	1	Russia	7
Chile	4	South Korea	6
Colombia	2	Spain	4
Denmark	13	Sweden	4
Ecuador	2	Switzerland	275
Finland	1	Turkey	4
France	12	Ukraine	1
Germany	0	United Kingdom	1
Greece	4	Uruguay	8
Hungary	5	Venezuela	1
Ireland	20	Zambia	1
Italy	29		

Source: LeDuc, Niemi & Norris, 1996. In order to include the EU referendum in 1994 the figure 3 for Sweden in the source has been changed to 4. Quoted from *Erik Moberg, Positive and normative aspects of direct democracy - the case of Sweden in a general context*, the City University of Stockholm, <http://www.mobergpublications.se/printed/direct.htm>

A variation of the referendum is the creation of a conditionality where a specific type of action cannot be undertaken by the government unless it is endorsed by referendum. Ontario has enacted such legislation to guard against tax increases.

Box 15: Ontario Tax Protection Act

In 1999, the Province of Ontario passed a Tax Protection Act that requires that the executive branch cannot introduce into the legislature a bill that increases or permits an increase of a tax rate, or introduces a new tax unless a referendum related to the increase of tax has been conducted before the introduction of the bill and such referendum approved tax increase/introduction of a new tax. Such legislation definitely provides for protection of taxpayer community but it also reduces the scope for tax policy implementation and reduces the flexibility of the fiscal system to respond to changes in economic environment. It is expected that the Act will be abolished in the near future.

3.3 Service Quality

Service quality improvement (SQI) programs within the public sector can be traced back to the radical re-engineering of traditional government processes and structures, most prominently in New Zealand and the United Kingdom, which occurred during the late 1980s and early 1990s. Like many “new public management” reforms, SQI programs adapted methodologies and techniques applied successfully in the private sector. By the late 1990s, many governments around the world used some form of SQI program usually supported by dedicated coordinating organizations at the centre of government.

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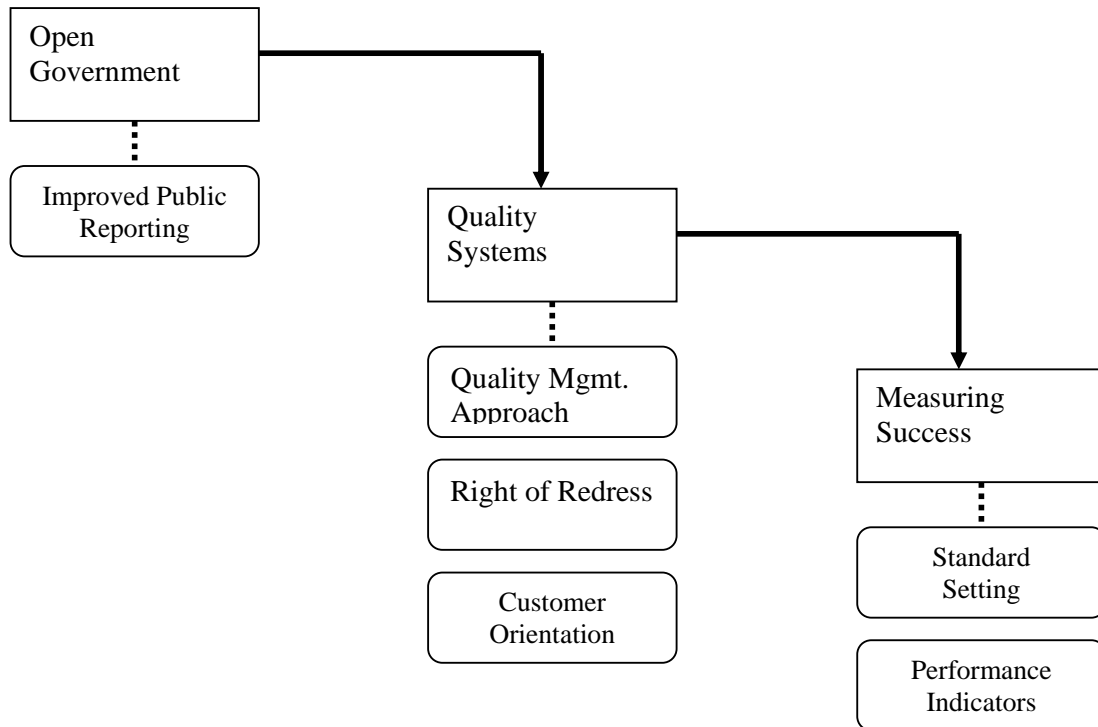
The goal of improving service quality has of course been a long-standing concern of governments. From PPBS⁴⁴ in the 1960s through the management modernization initiatives of the 70s and 80s (e.g., management by objectives, zero-based budgeting, quality circles), governments have tried to provide better service at less cost. In the SQI reforms of the 1990s there was perhaps a greater focus on the customer perspective:

- SQI requires that the status quo of government structures, programs and services be re-imagined and, ultimately, redesigned from the perspective of the service recipient. For example, Ontario's SQI program requires that programs be developed and delivered from an "outside-in" rather than "inside-out" perspective.
- SQI is not a standalone initiative. Its impact depends on synergies with related reform initiatives. The robust reform environment of the 1990s, which challenged many long-held assumptions concerning public administration, created a highly favorable environment for injecting the customer perspective into a wide range of change initiatives. These included organizational development, planning and accountability systems, restructuring, and e-government.

This section focuses on practical tools and techniques used in delivering SQI programs in a number of governments including Australia, Canada, Finland, New Zealand, Singapore, United Kingdom, and United States, based on the six components of a service quality framework set out in the Commonwealth Secretariat's publication *Current Good Practices and New Developments in Public Service Management*.

⁴⁴ PPBS, or planning, programming, and budgeting systems was introduced in the early 1960s in the United States Department of Defence.

Chart 5 – Framework for Improving Quality Services



3.3.1 Open Government - Improved Public Reporting

This topic was addressed earlier in the discussion on increasing transparency. However, it is worth noting here the link between public reporting/accountability and SQI. By definition, customer-centric programs must be informed by customer needs, which can only be articulated if a free flow of meaningful information exists between service recipient and provider. Critical information includes:

- expected levels of service and actual results achieved against those targets;
- customer perceptions concerning the quality of service and suggestions for improvement;
- government plans that respond to identified service quality problems; and
- inventories of and guidance on accessing available services.

International examples include:

- the United Kingdom's *Citizen's Charters* require that performance targets and results against those targets be posted at the location where the service is provided (e.g., in Underground stations, at hospitals);

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- Canada's *Citizens First* survey provides service quality ratings for a wide range of public and private sector services (e.g., banks, taxis, supermarkets, police, courts, schools, hospitals) based on an extensive public perception survey;
- the United States' *Government Performance Results Act (1993)* states as a purpose "improve Federal program effectiveness and public accountability by promoting a new focus on results, service quality, and customer satisfaction", and requires that "when developing a strategic plan, the agency...shall solicit and consider the views and suggestions of those entities potentially affected by or interested in such a plan";
- Ontario organizes its service inventory around an individual's life events --see box below.

Box 16 – Ontario's Life Events Guide

Information on available services is organized around events that may occur during one's life. In most cases, multiple services are involved at different levels of government. Life events include:

- planning next steps after high school
- looking for a job
- managing your debt
- losing a wallet
- vacationing in Ontario
- getting married
- having a baby
- dealing with separation and divorce
- moving to or within Ontario
- dealing with spousal abuse
- getting ready to retire
- finding health care for seniors
- life after retirement
- what to do when someone dies

The benefits of improving service by involving customers and focusing on their needs extend beyond creating a favorable perception towards a particular service; it positively affects public perception towards government as a whole. As evidenced in the *Citizen's First (2002)* survey, the long downward trend of Canadians' perception of their governments may, slowly, be reversing. When asked for an overall rating of government service quality, responses have improved at the federal level from 47% (1998) to 51% (2000) to 56% (2002). This corresponds with steadily improved ratings for individual public services.

3.3.2 Quality Management Approach

Ideally, SQI programs are situated within a broader quality management program. The concept of total quality management (TQM) or any other comprehensive approach requires that all aspects of an organization, from its leadership to its structures and processes to the way in which it manages human resources and

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knowledge, be reassessed and, ultimately, remodeled from a quality perspective. Three well-known but different approaches to quality management are summarized in the table below. ISO focuses on standard setting and certification; the European Quality Award is an annual awards program based on a rigorous quality assessment, and the Balanced Scorecard represents a strategic management methodology.

Table 6 – Three Approaches to Quality Management

Quality Approach	Features
ISO	<ul style="list-style-type: none"> • Geneva-based International Organization for Standardization comprising network of standards institutes from 148 countries • publishes international standards including the ISO 9000 and ISO 14000 series⁷; the 9000 series sets standards for establishing and maintaining quality processes and systems • ISO 9000:2000 adapted a model based on TQM principles containing eight quality management principles: <ul style="list-style-type: none"> ○ customer focus ○ leadership ○ involvement of people ○ process approach ○ system approach to management ○ continual improvement ○ factual approach to decision-making ○ mutually beneficial supplier relationship • ISO 9001:2000 provides extensive guidance (13 step process) on implementing quality management systems • ISO standards can only be certified by prescribed certification organizations
EFQM Excellence Model [European Foundation for Quality Management]	<ul style="list-style-type: none"> • EFQM is a non-profit organization with 700 member organizations in 50 countries; founded in 1988 by 14 private sector companies; now extends to public sector and oversees the EFQM excellence model • awards for excellence provided for meeting eight criteria: <ul style="list-style-type: none"> ○ leadership and constancy of purpose ○ customer focus ○ corporate social responsibility ○ people development and involvement ○ results orientation ○ management by processes and fact ○ continuous learning, innovation and improvement ○ partnership development • similar to Malcolm Baldrige (USA) or Deming (Japan) models
Balanced Scorecard	<ul style="list-style-type: none"> • developed in early 90s by Kaplan /Norton (Harvard Business School), building on TQM • primarily a strategic management system emphasizing a four perspective assessment: financial, business process, learning and growth, and customer • the balanced scorecard encompasses a coherent set of measures for each perspective • in government, replaces traditional project management approach (meeting customer requirements through a finite, task-specific plan) with a continuous cyclical assessment process • widely used in both private and public sectors (e.g., closely linked to federal enterprise architecture work of OMB in United States)

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In the public sector, these techniques have often been adapted to ensure that the unique attributes of government are taken into account. Critical success factors for comprehensive quality management programs within government include:

- *Visible, sustained support from leadership:* The quality program must be perceived across the public administration as a priority of government that is endorsed by political leaders. Similarly, the head of the civil service and the administrative heads of ministries/agencies must demonstrate a strong, public commitment to the program.
- *Service quality policy framework:* A coherent policy basis must be established, so that linkages between quality management and related government processes (e.g., strategic planning, budget formulation, policy development, restructuring, performance management) are clearly articulated.
- *Central coordinating body:* During the design and implementation stages, a comprehensive quality program will not be successful if it is simply mandated by decree. A central coordinating body needs to develop methodology, communicate across the system, undertake service-wide evaluations, assess ministry/agency quality efforts, brief decision makers on progress, and consult with external partners.
- *Delegation and partnerships:* Although programs may be designed centrally, implementation is optimally provided at the point of contact with the customer. Given the trend towards decentralizing service delivery, this suggests that a joint national/local government program may be an effective approach.
- *Common diagnostic approach:* Whether an off-the-shelf (e.g., balanced scorecard) or customized approach is used, there must be a common diagnostic approach applied service-wide to establish baseline data and benchmarks against which future progress will be gauged.
- *Service quality network:* The success of quality programs will be strongly influenced by effective information sharing (e.g., of best practices, benchmarks, assessment tools). External umbrella quality organizations can be joined and internal quality networks can be established for this purpose.
- *Quality tools:* Standard quality tools and training programs are available through service quality associations and networks. However, it is important that each organization develop its own practical “how to” tools to guide managers, staff, and staff associations or unions on implementing a quality program.

3.3.3 Right of Redress

Successful organizations or industries ensure that quick, fair and transparent mechanisms exist to address client complaints or grievances. This is essential within the public sector since service recipients are typically limited to one supplier. Given

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the range of services, it is not surprising that a variety of institutional approaches are adopted, including both legal and procedural remedies.

A number of countries have legislated public complaint rights and government obligations. For instance, Australian law requires that responses to written public complaints with factual statements and reasons be provided within 28 days and may be used as the basis for an appeal. Many countries have established administrative courts to deal with complaints regarding the legality of government decisions. For example, eight regional administrative courts in Finland receive up to 20,000 appeals annually. A Supreme Administrative Court can grant a further appeal.

A common redress mechanism in many jurisdictions is the mechanism of the Ombudsman, discussed above (and usually reporting to Parliament). In Finland, the Ombudsman investigates complaints lodged by citizens against the government and its organizations with a view to ensuring that the law has been upheld. If fault is found, charges can be laid or reprimands given. However, compensation cannot be granted.

Although fundamental to just, fair, and open government, the Ombudsman's primary function is not service quality. Nonetheless, the office can promote this in various ways. For example, Ontario's Ombudsman presents annual recognition awards to government organizations demonstrating excellence in public complaints resolution. Quebec's ombudsman published a "how to" manual on establishing an effective complaints function.

There are also a variety of statutory bodies and mechanisms to provide redress against a specific service, such as policing, as well as protect the legal rights of specific groups, such as children, consumers, women, and medical patients.

- Canada's national police force (RCMP) is subject to an independent public complaints commission that is empowered to review and refer complaints, investigate the handling of complaints, and make recommendations to the Solicitor General or RCMP. The Commission is required annually to report on their actual versus expected performance; e.g., complaints volumes, backlogs, and complaints resolution.
- The United Kingdom established an extensive ombudsman network to address complaints against, for example, the national health service, financial firms, social housing landlords, the legal profession, pension administrators, police, and prisons. Other bodies exist to handle complaints with respect to tax collection, customs, public appointments, immigration advisers/lawyers, child support, and the land registry.
- Norway created a Commissioner for Children to protect children's rights. Designated hours have been set aside to receive telephone calls and complaints from children. In fact, children initiated 18.5% of the cases.

Ideally, complaints lodged against government bodies will be resolved without having to seek recourse through more costly legal channels. Within government, a proactive

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approach involves the establishment of a public complaints office, most often within individual organizations. To be effective, complaints resolution must not only provide redress to service recipients, but lead to improvement in the way services are provided. If performed well, internal complaints resolution saves money by resolving problems before they enter the more costly administrative court/tribunal process. Quebec's ombudsman identified eight principles for creating a credible internal process.

<i>Box 17 – Principles of a Credible Public Complaints Mechanism⁴⁵</i>	
<ul style="list-style-type: none">• accessibility (recognizable, welcoming)• simplicity (no administrative barriers)• speed (within reasonable time frame)• confidentiality	<ul style="list-style-type: none">• procedural equity and transparency• clear, complete response provided• follow up (recommendations acted upon)• systemic (redress extended to all victims)

Examples of internal public complaints processes include:

- Australia's Centrelink, a one-stop shop service delivery agency, permits service recipients to request a review of a decision either by the person who made it or an authorized review officer; if that decision is not accepted a formal appeal to the Social Security Appeals Tribunal can be made.
- Ontario requires each ministry to have a complaint resolution process in place, to acknowledge receipt of the complaint within two days, and to specify follow-up time frames.

All formal and informal complaint mechanisms confront the problem that citizens often do not understand the organization's quality commitment or how to press a grievance claim. Accordingly, ensuring client awareness of these mechanisms is a critical success factor of any redress system.

3.3.4 Customer Orientation

Traditional bureaucratic structures have been under attack for well over a decade. As explored in chapter 1, privatization, public-private partnerships, licensing, contracting out, devolution, and e-government are just some of the alternative approaches to direct service delivery that have been tested. A variety of factors drove these changes, including a redefinition of government's role, fiscal constraint, demands for stronger accountability, advances in technology, and the principle of subsidiarity.

Another critical driver of change was the need to organize service delivery in a way that maximized benefits, such as convenience, efficiency, cost, and fairness, to the service recipient. In fact, the heart of any SQI program is its customer orientation. This is the defining factor that differentiates it from other processes and adds value to organizational effectiveness. Following private sector trends, a customer focus influenced virtually all other major reform processes:

⁴⁵ *A Legitimate Credible Complaints Office: Complaints Processing in Government Organizations.* Quebec National Assembly, 2001.

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- *Organizational Development:* Is service quality embedded within a more comprehensive quality program, encompassing organizational leadership, values, learning, and human resources management?
- *Planning and Accountability Systems:* Are service quality goals and objectives given prominence when governments set policy priorities, allocate resources, report results, or evaluate programs?
- *Restructuring:* Are “customer-friendly” organizational models (e.g., single-window, shared services) selected?
- *E-government:* Does the government’s e-government strategy give pre-eminence to the needs of service recipients rather than service providers?

Improved service quality was a principal driver behind the rethinking of traditional ministry structures that took place in New Zealand and the United Kingdom in the late 1980s. Large, integrated ministries were subdivided into two new entities: smaller policy organizations (the ministry) and separate service delivery agencies. The now familiar metaphor, distinguishing “steering” from “rowing” organizations, was commonly used to describe the uncoupling process. Two assumptions underpinned these changes: that policy should not be unduly influenced by operational requirements; and that service delivery organizations required greater independence if they were to become more responsive to customers’ needs. In some systems, such as New Zealand, private sector competitors were encouraged to compete with the government agency.

In the United Kingdom, the Next Steps Program resulted in approximately 75 percent of the civil service being moved into 126 agencies over a seven-year period (1989-1996). In New Zealand, similar restructuring occurred. For instance, the Ministry of Justice retained a strategic policy role while the Departments of Courts and Corrections and the New Zealand Police delivered core services.⁴⁶ It should be noted that other governments, such as Australia and Canada, pursued similar but less ambitious restructuring programs. The debate continues as to whether the strict separation of policy and operational functions creates more competitive, customer-focused organizations or contributes to greater fragmentation and poorer coordination.

One less contentious trend is the creation of “single-window” or “one stop shop” operations. Single windows represent access points where multiple services are provided at one location or “a common counter.” The obvious rationale for single windows is that, from the customer’s perspective, it is highly preferable to have all of one’s service requirements accommodated at a single location rather than having each service requirement dealt with by a different office. However compelling the logic, grouping services in this manner confronted the traditional vertical structures of ministries and agencies. Nonetheless, public demand continues to drive the expansion of single-window operations.

⁴⁶ Interestingly, the Department of Courts and Ministry of Justice were recombined in 2003. One of the criticisms of the wholesale separation of policy and delivery functions has been that it reduces coherence between policy and operational objectives.

Box 18 – Australia’s Centrelink Single Window

Australia’s Centrelink, a statutory agency, delivers services on behalf of ten government departments:

- Family & Community Services
- Employment & Workplace Relations
- Transport & Regional Services
- Veterans’ Affairs
- Health and Aging
- Education, Science & Training
- Agriculture, Fisheries & Forestry
- Foreign Affairs & Trade
- Communications, Information Technology & the Arts
- Immigration, Multicultural and Indigenous Affairs

Box 19 – Solving Inter-jurisdictional Problems in Singapore

Singapore’s ZIP (zero-in-process) service quality initiative establishes an integrated problem-solving mechanism to address “X-files” or problems involving multiple government agencies. Examples include:

- noise pollution
- foreign resident housing
- use of government-owned land
- application for civil service positions

Technological advances continue to drive many SQI changes. Although the primary impetus for SQI remains customer satisfaction, the advent of new technologies plays a critical and expanding role.⁴⁷ In fact, e-government strategies continue to evolve from assuring on-line availability to advocating service transformation. E-government strategies commonly focus on three sets of interactions or customer groups:

- government to citizen;
- government to business; and
- government to government.

Government to Citizen: The trend to providing services electronically is irreversible. In fact, the United Kingdom has ambitiously committed to making all government services available on line by 2005. Many electronic services will be internet-based, others located at kiosks, others at on-site installations. From a citizen’s perspective, the advantages are obvious and acceptance can occur rapidly. For example, on-line

⁴⁷ In Accenture’s 2003 survey on e-government , 93% of respondents rated “improved client satisfaction” as the major driver of service quality initiatives, followed by customer demands (83%), government performance targets (77%), and political push/pull (67%). “New technologies” was also rated highly at 62%, above “pressure to reduce costs” at 51%. *E-Government Leadership: Engaging the Customer*. Government Executive Series, Accenture, 2003.

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filing of tax returns in Singapore increased from 0 to over 40 percent in five years. The United States aims to more than double electronic filing to 80 percent by 2007.

Box 20 – Ontario’s Self-Service Kiosk

Service Ontario’s self-serve kiosks permit individuals to access a range of services at an electronic machine, including:

- renew vehicle registration and receive a new license plate sticker;
- pay provincial court fines
- order a customized license plate
- change the address on a driver’s license or health card
- renew fishing or hunting licenses

There are 60 kiosks across the province, used by an average of 65,000 Ontarians monthly.

Box 21 – Singapore’s E-Citizen Portal

Singapore’s E-Citizen portal allows on-line transactions for:

- making a payment to the government
- starting a new business
- looking for business opportunities with the government
- searching for a government job
- donating to charities
- participating in government policy making
- buying government reports and publications
- looking up government contacts

Box 22 – United Kingdom’s “Jobpoint” Terminals

The United Kingdom has installed “Jobpoint” terminals in a variety of locations, including shopping centres, prisons and pubs. These terminals allow users to access any of the roughly 400,000 job vacancies maintained on the system.

Government to Business: Any process efficiencies, time savings, or cost reductions in government to business transactions translate into productivity gains. Moreover, electronic transactions remove a common source of corruption (e.g., illegal charges for processing various licensing applications). Given the financial incentives, take up of electronic services by business can occur rapidly.

Australia’s on-line business registration system was accessed by 80 percent of businesses within a year of its introduction and dramatically reduced the time required for activating a registered business from 15 days to 15 minutes. In Ontario, which operates a similar system handling over 100,000 business start-ups per year, customer surveys indicate a 95 percent plus approval rating. Belgium’s social security agency, which requires on-line registration of employee start and end dates, has developed an application that permits employers to access this information and use it as an electronic personnel registry.

Government to Government: Although intra-government applications do not directly affect citizens per se, the resulting cost reductions enable investments to be made in

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frontline services. For example, technology facilitates the use of a pooled services model, where a single organization provides a range of common services (e.g., financial administration, purchasing, payroll, human resources, translation) to multiple government departments. Ontario created its Shared Services Bureau in 1998 by moving 1,300 employees from 22 ministries into a single organization. This initiative was the key response to a \$300 million expenditure reduction to internal administration across government.

In fact, technology may not only lead to changes in service delivery models, it can reshape traditional government organizational structures. The United States' Federal Enterprise Architecture Program, located within the Office of Management and Budget, ignores the formal government structure and uses a business reference model to identify 4 business areas, 39 internal and external lines of business, and 153 sub-functions. The intended goal is "a more citizen-centred government that maximizes technology investments to better achieve mission outcomes." In essence, this overlays a traditional functional review approach with a business case model for ITC investments. Over time, as crosscutting ITC systems eliminate transactions and redefine inter-agency working relationships, organizational changes will presumably follow.

By definition, presenting a range of best practices accents the positive. In practice, numerous e-government experiences have been profoundly negative, resulting in sharp cost overruns, poor public reception, or even technical failure. Looking to the future, a 2003 report (Accenture 2003) comparing e-government progress in 22 countries identifies the next generation of challenges, including moving towards a service transformation model, maximizing return on investment (focusing on high volume, high cost services), rethinking e-government using private sector CRM (customer relationship management) techniques, finding innovative ways to improve usage, and exploring potential wireless applications.

The same report ranked Canada, Singapore, United States, Denmark and Australia as furthest advanced. Not coincidentally, the government website in each country is among the ten most popular sites. As such, these countries are best positioned to reap enormous financial and competitive advantages as service costs decline and performance improves. Not surprisingly, the lowest ranked countries (South Africa, Brazil, Portugal, Mexico, Malaysia) have the lowest per capita GDPs within the 22 country sample. This raises the digital divide issue, which is highly pertinent to the Russian Federation.

3.3.5 Measuring Success : Defining Performance Indicators and Service Standards

Chapter two addressed the issue of standards in general. However, the introduction of customer needs as a driver of program design has transformed government approaches to performance measurement. In addition to traditional program efficiency/effectiveness measures, governments are now expected to determine the impact on and perceptions of customers. Benchmarks were established to permit inter-jurisdictional comparisons of service standards, and to provide the basis for certification or awards. Routine transactions, such as the response time to a telephone call, suddenly assumed much greater importance and were included in public charters. This trend continues and shows no signs of reversal.

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Traditional Service Delivery Measures: Since the late 1960s, with the adoption of program budgeting (PPBS), considerable attention has been devoted to linking program activity to cost and results. As experience was gained, measurement methodologies were sharpened. The programs themselves derived from a logic model, where an organization's mission, strategic goals and policy objectives informed program structure. In turn, program measures were developed, beginning with inputs (e.g., fiscal or human resources) and moving through activities to outputs and outcomes. Although the focus is, by definition, on the program, service quality is often reflected in program performance measures and targets.

New Zealand manages one of the world's most comprehensive performance measurement and budgeting systems, requiring all funded government programs to link requested and actual expenditures to outputs (and increasingly to outcomes). The scope of this exercise is enormous. To provide one example, the Ministry of Health tracks hundreds of outputs in 13 output classes. The ministry's most recent annual report devotes 150 pages to these measures. Beyond the ministry, 21 District Health Boards prepare annual reports, again with detailed output classes, outputs, and output targets (e.g., wait times for elective surgery under 6 months; first appointment to specialist provided within 6 months; number of medication errors). In the annual report, the results are provided along with the cost and an explanation for any variances. A second example, set out in the table below, is excerpted from the Ministry of Transport's annual report and provides achieved versus expected results.

Table 7 - Select Performance Measures: NZ Ministry of Transport Annual Plan

Performance Measures	Actual 2001/02	Targets 2001/02
Quantity Number of information requests	3,635,459	2.6-3.0 million
Quality % of users who rank motor vehicle registry supplied data as meeting their expectations, based on independent survey	80%	90%
availability of registry computer system	7 minutes downtime	48 hours downtime
accuracy of computer records	98.53%	95%
entry of motor vehicle registry transactions into database	within 48 hours of receipt	within 48 hours of receipt

In both the Health and Transport examples, it is worth noting that important "customer-focused" performance information is included. This is true of most performance measurement approaches in advanced public administrations.

Customer-Focused Service Quality Measures: Notwithstanding improvements in performance measurement and service quality data, traditional approaches did not capture the unique perspective of the customer, which is often unrelated to formal structures or programs.

Ontario's Quality Service Strategy established service standards for the most common and important interactions with the public. These standards, covering telephone response, mail/fax/e-mail response, counter service, and complaint resolution, were

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applied to all ministries. Independent consultants were hired to determine each ministry's performance (e.g., by anonymously phoning the ministry and recording the response time). These targets were included in the performance contracts of each Deputy Minister and reported to the Secretary of Cabinet with an expectation for improvement and sustained high levels of service over time.

Box 23 - Service Quality Standards for Ontario Public Servants

Telephone Response

- all calls to be answered by the 3rd ring during business hours
- a maximum of one redirection
- all automated responses include the option of reaching a person
- all calls will be returned within one business day

Mail/Fax/E-Mail Response

- all correspondence to be answered within 15 days of receipt
- if a conclusive response is not possible, an interim response indicating the anticipated response date will be provided

Counter Service

- all government offices will be open at least from 8:30 a.m. to 5:00 p.m.
- customers will be served in order of arrival and advised as to expected wait time
- suggested hours when service will be quicker are to be posted

Complaint Resolution

- every ministry must have a documented complaint resolution process in place
- complaints will be acknowledged within two working days
- follow up will occur within a specified time frame (depends on nature of complaint)
- feedback by the person lodging the complaint can be provided at each step of the process

The United Kingdom's Citizen's Charters were among the first and most famous of initiatives specifying precisely the level of service the public should expect from public institutions such as hospitals and transportation services.

Box 24 – Targets from London Trams Citizen's Charter

- all stops cleaned daily
- all trams cleaned externally and internally before beginning their day's work
- all trams cleared of litter every 3 hours between 09:30 and 18:30 Monday to Saturday
- 97% availability of ticket machines at your stop
- 98% of scheduled tram kilometers run
- 97% reliability of information on "next tram" indicator
- 95.5% of wait times are less than double the wait time indicated on the timetable

Customer Perceptions: One of the most revealing indicators of performance is the perception of direct recipients of a particular service. Ministries often conduct such surveys, but a more systematic approach has been instituted in Canada by the federal government and four provinces. Since 1998, a bi-annual study entitled "*Citizen's First*" has been conducted.⁴⁸ Funded by government, the survey is managed by an NGO (Institute of Public Administration of Canada) and administered to over 6,000

⁴⁸ *Citizens First*; prepared by Erin research: Institute of Public Administration of Canada, Toronto, 2000 & 2003.

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Canadians by a consulting firm. It covers both public (national, provincial and municipal) and private sector services. The survey gauges satisfaction levels of service recipients with respect to:

- timeliness;
- staff knowledge and competence;
- staff courtesy and helpfulness;
- fairness; and
- outcome.

A client satisfaction score is then compiled between 0 and 100. The survey also identifies citizens' priorities for improving service at each level of government, including the potential for e-government solutions. The chart below indicates the satisfaction ratings for a select group of 20 public and private services from the 2000 survey.

Table 8 – Best and Worst Ratings by Citizens of Services in Canada

Top 10 Services	Rating	Bottom 10 Services	Rating
fire department	77	post office	60
public libraries	75	insurance companies	59
supermarkets	73	taxis	58
private mail carriers/couriers	69	public transit	55
provincial electrical utilities	64	tax collection and customs	54
provincial parks, campgrounds	64	cable television	53
police	63	banks	52
telephone companies	63	public education system	49
department stores	62	hospitals	49
passport office	61	road maintenance	36

Benchmarking: Benchmarking; i.e., a systematic determination of performance standards representing best practices of comparable organizations, is widely used by international, public sector and private sector organizations. Benchmarks provide meaningful milestones over the medium and longer term for SQI programs. Although benchmarking is not confined to service quality, it typically constitutes a core component. For instance, Singapore's extensive benchmarking exercise included customer satisfaction as a general category, along with financial efficiency/management, productivity, investment, growth, innovation, suppliers, and people management/satisfaction.

The Singapore program initially referenced the UK Department of Trade & Industry's Benchmark Index, developed in 1996 containing data on 80 performance measures from 6,000 businesses. Ultimately, 37 performance measures were selected as being applicable to Singapore's public service. With respect to customer satisfaction, benchmarks were established for: number of complaints per customer and number of complaints per order/transaction. (Singapore Statutory Board 2003).⁴⁹

⁴⁹ *Singapore Statutory Board Benchmarking for FY2002*. Public Centre for Organizational Excellence, Singapore, 2003.

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Standards for Certification and Awards: A wide range of international organizations, serving both the public and private sectors, set standards as the basis for certification programs. For example, the ISO, through its 14001 series, provides technical standards relating to environmental management programs. In 2002, 49,462 organizations across 118 countries had been certified, an increase of 34 percent from the previous year.

Standards are also set within government as the basis for awards programs. For example, Singapore rewards organizations that meet 3 service quality standards (ISO 9000, People Developer Standard, Singapore Quality Class) with additional funding for staff development and further service improvements.

3.4 Implications for the Russian Federation

It is perhaps usually the case that a strong focus on transparency, public accountability and service quality within a public administration reform program is found in countries which already have basic elements of formality and discipline and capacity embedded in their public administration system. For example, SQI or large-scale regulatory impact assessment programs require as a pre-condition for effective implementation reasonably advanced administrative capacity. This is not to say, however, that all elements should be deferred in countries with a weaker start point : for example, moving towards merit-based and transparent staff recruitment and improved and transparent public procurement processes should be among the early objectives of any reform program (while acknowledging the obstacles that perverse incentives and entrenched direct economic interest may represent to implementation of such objectives).

A review of the RF's relatively poor rankings across relevant international indicators⁵⁰ suggests that, while implementation may need to be approached carefully, the issues of transparency, public accountability and service quality merit require urgent attention under the administrative reform program:

- *Corruption Perception Index (CPI)*⁵¹ Transparency International produces the CPI annually based on a survey methodology. In 2004, Russia ranked 90th of 146 countries with a country score of 2.8 (from 2.7 in 2003) out of 10 (higher scores indicate less perceived corruption). The top 5 countries were Finland, New Zealand, Denmark, Iceland, and Singapore.

⁵⁰ These indices vary in terms of quality and applicability as they are often based on aggregate data and sometimes rely on a limited number of survey participants. A detailed review of governance data and the methodology for institutional performance indicators is available on the World Bank and WBI websites (<http://www1.worldbank.org/publicsector/indicators.htm> and <http://www.worldbank.org/wbi/governance/data.html#prem>)

⁵¹ CPI is a composite index prepared by Transparency International (TI) based on 17 surveys of businesspeople and assessments of country analysts from 13 institutions. The index primarily provides an annual snapshot of the levels of corruption in the country, and year-to-year comparisons should be made with caution and be based on country's score, not country rank since the latter may change due to change in the country sample. Since the index reveals the perceptions, it highly depends on the sample of respondents. The methodology for estimation of CPI is available at <http://www.transparency.org/cpi/2003/dnld/framework.pdf>

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- *GRICS*⁵² As outlined in chapter 2, the GRICS presents a composite governance indicator for 199 countries, including voice and accountability, political stability, government effectiveness, regulatory quality, rule of law, and control of corruption. In 2002, the estimated percentile rank for Russia was 33.8 on voice and accountability and 21.1 on control of corruption: both indicators were higher than the regional (CIS) average but extremely low compared to the OECD average (91.3 for both voice and accountability and control of corruption).
- *Opacity Index*⁵³ provides a composite gauge of transparency. In 2001, Russia got the second highest “O-factor” and risk premium out of 35 countries in the sample (higher rankings are negative). The lowest opacity ratings were recorded for Singapore, United States, Chile and the UK.
- *Business Environment and Enterprise Performance Survey (BEEPS)*⁵⁴, funded jointly by the EBRD and World Bank, provides comparative measurements of governance quality, investment climate and competitive environment. In the 2002 survey, only 24.8% of surveyed firms in Russia tended to agree that interpretation of laws and regulations affecting their activity were predictable - as compared to 32.5% in Ukraine, 43.9% in the Czech Republic, 57.3% in Hungary, 33.3% in Poland and 54.8% in Estonia. The “time tax” measured as the percentage of senior management time spent on dealing with public officials about the application and interpretation of laws and regulations and getting or maintaining access to public services is also high in Russia: in 21.3% of cases senior managers spend 19% or more time on these issues, as compared to 20.3% of cases in Poland, 13.2% in Hungary, 6.7% in Estonia, and 3.8% in the Czech Republic.
- *Press Freedom Ranking* is prepared by the Reporters without Borders NGO and ranks all countries based on a questionnaire survey including 53 criteria for assessing the state of press freedom in each country. It includes every kind of violation directly affecting journalists (such as murders, imprisonment, physical attacks and threats) and news media (censorship, confiscation of issues, searches and harassment). In 2003, Russia was ranked the 148th out of 166 countries while the top countries included Finland, Iceland, Netherlands, and Norway.

3.4.1 Transparency Implications

⁵² Measured by the World Bank: reflects a statistical compilation of responses on the quality of governance given by a large number of enterprise, citizen and expert survey respondents in industrial and developing countries, as reported by a number of survey institutes, think tanks, non-governmental organizations, and international organizations. The indicators are presented in the form of percentile rank that indicates the percentage of countries worldwide that rate below the selected country (subject to margin of error).

⁵³ The index combines five indicators reflecting the level of corruption, legal protection of property rights, economic policy, accounting standards and regulatory regime. Opacity is understood as “the lack of clear, accurate, formal, easily-discernable and widely accepted practices”.

⁵⁴ BEEPS results can be related to different characteristics of firms and to firm performance. It is a survey of managers and owners of firms across the countries of Eastern Europe, the former Soviet Union, and Turkey. Some indicators generated by the survey such as business regulation, corruption and state capture, perceptions of business environment may be used for comparative analysis of transparency in transition economies. The data is available for 1999 and 2002.

<http://info.worldbank.org/governance/beeps2002/>

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The core measure underpinning transparency of information is freedom of information legislation supported by a strong delivery and enforcement capacity. There have been several FOI initiatives in the RF:

- A draft law *On Access to Information about activity of state and self-governance structures* was prepared in 2003 but has not yet been enacted;
- A Federal Law “*On Information, Informatization and Protection of Information*” that regulates the creation of information resources, outlines the responsibilities of local government and self-government structures with respect to the creation of such information resources, and establishes the right of citizens to file complaints on actions and decisions of the government limiting citizens’ right to access to information;
- RF Government Decision #98 of 2003 “*On provision of access to information on the activity of the Government of the RF and Federal executive authorities*” that includes a list of 53 items of information relating to the activity of the RF government and executive authorities, including legal documentation, information on activity and structure of the federal authority concerned, reports on the implementation of the federal programs and plans, and report on implementation of the federal budget by the respected government authority, results of inspections conducted by respected authorities;
- RF Government Decision #65 of 2002 that aims to increase information transparency of state and local self-governance structures through development and use in their work of information and communication technologies to communicate more effectively with citizens and organizations.

The continuing absence of a legislated FOI program represents a critical deficiency in the overall administrative reform program in Russia.

A conventional Ombudsman function could also be considered. The present Office of the Human Rights Ombudsman fulfills functions quite different from the Ombudsmen found in OECD countries.

With respect to transparency of process, the move following the 2004 RF government restructuring to codify every state body’s administrative procedures (“reglements”) represents an interesting attempt to increase transparency. The *Concept for the Federal Law on Administrative Procedures*, prepared by the Center for Strategic Studies in May 2004 and approved by the Government Commission on Administrative Reform in autumn 2004 proposed that the process for developing administrative procedures should rely heavily on external participation and consultations with stakeholders while the procedures themselves should be readily available to the public.

Fiscal transparency is one of the corner-stones of *the Concept for Reforming the Budget Process in 2004-2006* approved by the Government in May 2004. Starting from the 2005 budget cycle, the draft budget will include performance information (provided in the form of *Reports on Results and Main Areas of Activity* that are to be prepared by all subjects of budget planning). This will allow for more meaningful discussion in the legislature and potentially also spur public debate on public expenditure priorities.

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Introduction of a medium-term budgeting framework also reflects a step forward towards better fiscal transparency. There are however two issues here. The planned 3-year time frame to complete the transition to performance-oriented budgeting is very short, based on OECD experience; and the reform appears so far to be confined to the federal budget while most services are delivered at regional and local levels. Implementation of performance-oriented budgeting across the 89 subjects of the Federation, with their varying capacity and resources, will represent a massively complex and challenging reform undertaking.

Fiscal transparency would also be supported by strengthening the capacity of the RF Accounting Chamber to conduct independent audits of public accounts based on more rigorous performance audit techniques (e.g., value for money audits).

Public procurement is regulated by Federal Law No. 97 *On Public Procurement* of 1999 and Presidential Decree #305 *On Priority Measures to Combat Corruption and Reduce Budget Expenditures through Organizing Auctions (Tenders) to Procure Products for State Needs* of 1997.

The 2000 World Bank Country Procurement Assessment Report (CPAR) highlighted the following procurement deficiencies:

- Current legislation does not have adequate provisions for disclosing written records of procurement proceedings;
- Bid opening is public but may not coincide with the time of the budget submission deadline;
- Negotiations after bid opening and award selection are permitted;
- There is no specific method for procurement of consulting services;
- There is no provision related to bid and performance securities;
- The provisions on bidder qualifications are unsatisfactory and fail to clearly identify parameters for permissible qualification requirements and assessment criteria. Evaluation-related provisions also contain deficiencies;
- Provisions on conflict of interest are not comprehensive and non-specific to the procurement activity. There is no procurement code of conduct as well;
- No administrative review procedures are provided for: bid protests may be reviewed only in courts.

Given the importance of transparency in public procurement as a means to improve the efficiency of public resource use, the further development of national procurement legislation should be accelerated as a reform priority under administrative reform.

Some steps were taken over 2002-2003 to improve the actual mechanisms of public procurement : a federal government system of electronic procurement was developed to increase transparency and competition, improve efficiency, reduce corruption and misconduct, and begin to integrate Russia into the international e-procurement system. Similar activities had been pursued in some subjects of the Federation (e.g., Chuvashia Republic and Novgorod oblast).

Regulatory reform has been on the agenda of the RF government since 2000. This is one area where progress could perhaps relatively easily be accelerated, e.g., through establishing consultative fora with stakeholders and developing a regulatory impact

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assessment instrument. The methodology for conducting diagnostic assessments of possible corruption risks imbedded in draft (or approved) legislation developed by a number of Russian think tanks and successfully tested on several draft laws presents a first concrete step in this direction.

Human resource transparency remains problematic. This issue was highlighted in the *Concept for Reforming the Federal Civil Service in Russia* approved by the President in 2001, as well as in the Presidential Program *Civil Service Reform (2003-2005)*. The Federal Law *On the State Service System of the Russian Federation* enacted in May 2003 and the Federal Law *On the State Civilian Service* that came into force in February 2005 provide at least in theory for more active use of competitive recruitment and merit-based promotion, introduce term contracts for civil servants, and provide a certain measure of increased flexibility in the area of civil service remuneration. Ensuring effective implementation of the new legislation and developing and implementing performance management systems (integrated with organizational performance management systems) as discussed above remain core challenges in the area of development of HRM transparency in Russia.

If the reform team were to be able to secure accelerated progress in the areas as set out above, this would make a significant contribution to strengthening external accountability of the government, both to the legislature (through the improved budget process), and to stakeholders at large (through introduction of administrative procedures, quality standards for public services, more information available to the public.).

3.4.2 Public Accountability Implications

Encouraging public participation in the policy process has not traditionally been part of the RF political culture. Although some executive authorities such as the State Customs Committee collect feedback on departmental performance and engage consultative bodies comprising core stakeholders (e.g., Customs Brokers Association, Chamber of Commerce), such practice is not widely spread and formal consultation mechanisms are not required by legislation. Civil society remains weak and in some respects under increasing threat. Without broader public participation, the credibility and quality of government policies and draft legislation will continue to be problematic, particularly perhaps in areas such as regulatory reform. Should any such reforms be pursued, they would not be likely to have any real impact until key first-generation reforms such as merit-based civil service recruitment have been fully implemented.⁵⁵

While efforts to strengthen “voice” mechanisms...are important, the impacts of such reforms appear to be almost non-existent until there exists a public sector capable and motivated to respond to external voices.

Source: World Bank 2003 – Understanding Public Sector Performance: An Empirical Contribution

3.4.3 Service Quality Implications

⁵⁵ *Understanding Public Sector Performance in Transition Countries: An Empirical Contribution.* World Bank, 2003.

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Comprehensive SQI programs tend to be appropriate at a relatively advanced stage of public administration reform. Many of the preconditions necessary for successful SQI programs will not be present in countries like the Russian Federation where civil service, administrative and budget reforms have only comparatively recently been launched. Until the basic structures of government and the realignment of mandates and functions of existing structures have been implemented, it would be premature to consider introducing a service-wide quality program or creating a central coordinating SQI unit. There are, however, a number of initiatives that could be contemplated in the short-term that should result in service quality improvements.

- Pilot projects could be pursued in the area of informal public complaints mechanisms.
- Pilot projects could also be encouraged at all levels of government in terms of “single windows”/one stop shops (this could perhaps be an objective of the next stage of functional reviews).
- Attempts could be made to accelerate intranet solutions for government to business interactions; and, at least in major cities, for government to citizen interactions.
- The development of the legal framework for service standards could be accelerated to require all services to set standards such as those currently in place for inland customs clearance (3 days), business registration (5 days), and living permits for foreigners (6 months). Government bodies could be provided with incentives to seek certification against international standards⁵⁶. The RF government could consider setting up an award program for excellence and innovation in customer service.
- The performance budgeting and strategic planning reforms may also provide a useful framework for accelerating attempts to improve the quality of public services through creation of incentives within the civil service to focus on service delivery and quality through the development of appropriate performance indicators. This could easily be leveraged through including such performance measures in the *Reports on Results and Main Areas of Activity* now prepared on an annual basis as part of the budget preparation cycle by all subjects of budget planning.
- A survey of citizen and business perceptions concerning service quality could be conducted to establish important baseline data.

A consistent message echoes throughout the individual topic discussions above. The foundations for service-wide introduction of SQI in the RF public administration are not yet in place and will only be created through other reforms in the medium to longer term. More advanced or stronger capacity bodies could however be provided with incentives (including linked to resource allocation under budget preparation) to adopt and pilot SQI concepts now. Political leaders and senior public service management can publicly champion customer and client orientation as key objectives. A strong customer focus could and should be incorporated into the programs for administrative, budget and civil service reforms.

⁵⁶ In 2004, one of departments of the Ministry for Economic Development and Trade was in fact certified in accordance with ISO 9000 series quality standards.

3.4.4 Conclusion

The RF public administration is in many ways in a weak and fragile condition, with low credibility with the private sector and with citizens and service users; with no tradition of service or external client orientation; and severe internal governance problems. At the same time in certain respects it is now in a state of transition, given the launch of civil service reform initially, and now also budget reform and administrative reform; plus the radical restructuring of the machinery of Federal government undertaken in spring 2004. . All of these characteristics make seeking to accelerate progress in the areas of external accountability, transparency and improved service quality critically important to the success of overall administrative reform in Russia. This would also support securing overall national priority objectives in the areas of economic growth and competitiveness, development of human capital, and poverty reduction. However, these characteristics in and of themselves represent a formidable implementation obstacle and challenge. It is hoped that at least some of the approaches and experiences of other countries (both from OECD and also other transition countries) highlighted in this paper might help enable Russia to accelerate its own progress in these critically important areas.

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APPENDIX 1 PROGRAM AND FUNCTIONAL REVIEWS: COUNTRY EXPERIENCE SUMMARIES

Brazil – inventory of government programs⁵⁷

Brazil introduced a program budget format to re-examine all government activities. The process inventoried and mapped activities into 380 programs with common goals and performance indicators to monitor progress. Program definition was based upon dialogue between each ministry and the Ministry of Planning as part of the federal government's 2000-2003 multi-year plan and budget preparations. The quality of dialogue depended on central specialists' knowledge of their sector and bargaining relations with ministries. While the Ministry of Planning provided the framework, the pace and exact form of implementation were left to each ministry. Program design continued to be rationalized during the first year of implementation, since organizational changes had not materialized in most ministries. Some states were starting to adopt the process.

The pivotal question is, "What are we doing, and does it lead to any meaningful outcomes?" The government has explicitly shied away from an exercise that results in target driven program cuts. The initiative has also been timid in identifying alternative modes of operation, such as contracting out. Ministries are pursuing these measures through parallel efforts, like ongoing health sector modernization and decentralization. The World Bank considers this a sensible strategy because any reform that pushes cutting and reorganization is likely to encounter overt opposition and covert resistance within the vast federal bureaucracy.

Canadian reviews:

Government of Canada – 1994 program review⁵⁸

Program Review presented a new government early in its mandate with an opportunity to start fresh. The process was orchestrated centrally to review all government programs, including those implemented by central agencies, according to six criteria: public interest, role of government, jurisdictional alignment, external partnership, business principles, and affordability. Public expectations were managed by making the public aware of the dangers of doing nothing, informing the public of the advantages, and avoiding public debate on technical design. Public servants were kept involved and motivated by creating a sense of urgency, avoiding complexity, and promoting visibility. Bargaining with sub-national governments and other sectors featured concessions to ease offloading and contracting of federal responsibilities. Savings of \$3.9 billion on a 1995/96 budget of \$52 billion, rising to savings of \$7.2 billion in 1996/97, were realized.

Government of Canada – ongoing Alternative Service Delivery reviews⁵⁹

⁵⁷ See (Wilkins 2001)

⁵⁸ See (Armit and Bourgault 1996; Aucoin and Savoie 1998)

⁵⁹ See (Treasury Board of Canada Secretariat 2001; Wilkins 2001)

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As one concrete product from an otherwise somewhat discredited earlier reform program (*Public Service 2000*), Special Operating Agencies (SOAs) were conceived in 1990 as a method for the federal government to improve service and reduce costs in selected programs. SOAs allowed the semi-corporatization of some Departmental activities into business units with greater managerial flexibility but within the public sector.

Following a change of government in 1993 and Program Review in 1994-95, stocktaking of the initiative resulted in some SOAs being merged back with their parent departments, some being privatized, and most being retained within tighter parameters. The total number of federal SOAs has remained at 20, but many of Canada's provinces and some cities have adapted the concept successfully, most notably in Manitoba and Winnipeg.

The 1994 Program Review was a one-time, time-limited, comprehensive adjustment, but it was followed by ongoing Alternative Service Delivery (ASD) reviews. These lacked the political will, central coordination, and target setting of Program Review. Unlike the UK policy of creating a civil service of executive agencies or the New Zealand policy of wholesale commercialization and privatization of government entities, there was no preconceived outcome for the ASD reviews.

Responsibility for ASD reviews lies with the Treasury Board of Canada Secretariat. The ASD Division has developed a policy and guidelines on the federal ASD framework. Departments and agencies are encouraged to continually review their programs to ensure they are still relevant and are being carried out in a way that best achieves national objectives. The principles guiding this examination are related to the public interest, service quality and client orientation, resource management, and human resources. Issues reviewed with central agencies include public policy, impact on the fiscal framework, change in accountability, legal constraints, significant human resource effects, and cross-departmental implications.

Programs are reviewed on a case-by-case basis, in consultation with the other central agencies. Treasury Board or Cabinet suggests candidates and an initial feasibility study analyzes the options, and selects the best. A proposal is submitted to Treasury Board or Cabinet to implement the department's preferred option.

The impact of the ASD initiative has not been measured consistently across the federal government. Results to date include:

- Creation of additional SOAs, including six in Industry Canada;
- Establishment of three legislated service agencies (revenue, food inspection, parks);
- Facilitation of partnerships through amendments to the Financial Administration Act;
- Outsourcing of property management functions, with projected savings of \$40-50 million;
- Conversion of civil air navigation to a not-for-profit corporation;
- Negotiation of six employee takeovers with the National Capital Region Commission; and

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- Privatization of government printing and publications.

Province of Alberta – Alternative Service Delivery reviews⁶⁰

The Province of Alberta ASD review has helped government find more cost-effective ways of operating. The program has used a variety of delivery options, including privatization, contracting, and devolution to municipalities. In the past decade, Alberta has outsourced information technology, hunting and fishing licenses, electricity, liquor sales, highway maintenance, and motor vehicle licenses.

Guidelines on requests for proposals and contract administration are provided to ministries and agencies interested in outsourcing services. The procedure calls for review of strategic plans, performance information, delivery options, cost-benefits and risks, human resource implications, action plans, and communication strategies. So as not to sacrifice service quality to economy, issues of performance, finances, stakeholder interests, contract administration, complexity, and timing are considered in the overall assessment of alternatives.

The outsourcing process has spread quickly throughout Alberta, fueled by encouraging results and government downsizing. Claims have been made about improved service quality and reduced costs.

Province of Manitoba – Alternative Service Delivery reviews⁶¹

In 1991, the Province of Manitoba embarked upon a ASD reviews as a different approach to evaluating public programming and spending. The Province designated seventeen SOAs in nine departments in seven years.

The Province passed enabling legislation to designate SOAs by regulation and to establish the governing body attached to Treasury Board to fund and account for SOAs outside mainstream government.

SOAs are service operations within government granted more direct responsibility for results and increased management flexibility needed to reach new levels of performance. They are semi-autonomous agencies situated along an organizational continuum between a line department and Crown corporation. Ideal candidates are those organizations best held within government in the public interest but which require greater freedom to manage in a more business-like way. Candidates can be direct public services, internal services to government, science and technology services, or regulatory and enforcement programs.

The Manitoba SOA balanced scorecard to 1999/2000 indicates significant operating efficiency improvements as a result of ASD initiatives:

- \$26 million (33%) new revenue and \$20 million (17%) annual cost-savings, resulting in retirement of \$11 million in provincial debt and sharing of \$34 million in surpluses with the Province.

⁶⁰ See (Wilkins 2001)

⁶¹ See (Wilkins 2001)

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- 208 new private sector jobs and \$100 million in new economic development activity leveraged in the provincial economy.
- 44% more service selection and 46% more service volume, 90% of which was provided on time to 120% more clients, with 93% client satisfaction and 100% client retention.

*Province of New Brunswick – Program and Service Review*⁶²

In 1999, the Province of New Brunswick approved a process for a Program/Service Review designed to systematically assess all government programs. The mandate of the task force was to reduce areas of waste, duplication, and overlap as the basis for future policy and funding priorities. The review was guided by five questions dealing with the role of government, relevance to provincial objectives, competitiveness, efficiency, and affordability.

The review entailed four phases: identification and description, functional grouping, priority setting, and impact assessment and implementation. Over 600 services were identified, profiled in detail, and sorted into twelve horizontal groupings. Service groupings were evaluated to differentiate essential and non-essential programs. The latter were either discontinued or considered as ASD prospects. The initial results were reflected in the restructuring of government departments announced in the 2000/01 Budget. The Department of Finance, for example, had lottery, liquor, and tobacco regulatory responsibilities transferred to the Department of Public Safety but retained responsibility for lottery policy.

*Province of Ontario – ongoing Alternative Service Delivery reviews*⁶³

In 1996, the Province of Ontario introduced an ASD initiative with a standardized format and central approval process for ministries. A new government had called for a more business-like, results-based approach to what remains in government and greater involvement by the private sector in delivering public services. Government would pursue alternatives, such as public/private partnerships and opening government to outside competition. ASD was an important part of the strategy to enable ministries to deliver affordable, accessible, and responsive programs and services.

Candidacy was voluntary and guidelines were issued that explained the principles, options, and criteria and to help ministries choose the most appropriate delivery option for a program. The options discussed include privatization, partnerships, licensing/franchising, external purchase of services, devolution, agencies, and direct delivery by government. Ministries are expected to prepare business plans, setting out their restructuring strategies, with proposals to:

- terminate programs;
- continue direct delivery of redesigned programs; and
- use alternative approaches to deliver redesigned programs more efficiently and effectively.

⁶² See (Wilkins 2001)

⁶³ See (Wilkins 2001)

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The framework sets out guiding principles, the decision tree for program review, criteria for selection of a delivery option, accountability considerations, ASD options, and the approval process. The criteria for determining the optimum delivery option take into account the public interest, decision-making autonomy, financial autonomy, management and administrative flexibility, applicability of market forces, and cost-benefit analysis.

A guide provides ministries with the format for selecting cost-effective delivery options. Preparation of a ministry business case is a decision-making requirement for ASD selection. It is a systematic approach to comparing the costs and benefits of current and alternative methods of delivery.

*Province of Quebec – Autonomous Service Unit program*⁶⁴

The Province of Quebec has created a program of creating Autonomous Service Units (ASU). They borrow from the example of UK executive agencies and Canadian SOAs. Managers are granted more freedom and authority but are held more strictly accountable for results. The best candidates have an operational role, measurable performance, a clear mission, stable policy, and sound financial management.

Fifteen ASUs have been established in broad areas of provincial programming since 1995. These include programs as diverse as aircraft and vehicle fleets, parking, scientific laboratories, rent regulation, environmental analysis, student aid, employment, forestry, conservation, mineral research, tourism, and revenue collection. Quebec also considers partnership, devolution, and contracting options in assessing services.

The focus on performance indicators, information systems, and training has helped ASUs to become efficient and innovative. There are many reported instances of cost-savings to government, productivity gains, and improved service quality. However, ASU proponents are frustrated by inadequate resourcing and unresponsive support services from departments and central agencies.

*City of Winnipeg – Management Reference Model reviews*⁶⁵

Early in 1998, the city adopted a framework for a case-by-case review of City services to evaluate the most appropriate mechanisms for delivering affordable, responsive, and sustainable services. This framework established the ground rules and direction for a consistent approach to ASD decision-making and summarized the approval process for ASD development. The city delegated an ASD committee to prioritize, review, and evaluate candidates.

The city adopted an innovative business modeling software called the Management Reference Model for Government Services (MRM/GS). The MRM/GS identifies activities, resources, and internal services that support public services, maps

⁶⁴ See (Wilkins 2001)

⁶⁵ See (Wilkins 2001)

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organizational roles, responsibilities, authorities, and accountabilities, and links public services to program outcomes.

During 1998-99, the MRM/GS was completed across all City departments, resulting in service descriptions for 260 discrete public services. This information allowed the City to define core versus non-core services and to set service baselines and targets.

Jamaica – agency modernization diagnostic reviews

In 1998 and 1999, diagnostic reviews were undertaken to prepare 19 entities into UK-style 'Executive Agencies' and modernize their operations. These entities were chosen by the government on account of the significance of the services they provide. The agencies reviewed were:

1. Planning Institute of Jamaica (Ministry of Finance and Planning).
2. Jamaica Customs Department (Ministry of Finance and Planning).
3. Office of Titles (Ministry of Environment and Housing).
4. Town Planning Department (Ministry of Environment and Housing).
5. Surveys Department (Ministry of Environment and Housing).
6. Jamaica Information Service (Office of the Prime Minister).
7. JAMPRESS (Office of the Prime Minister).
8. Registrar General's Department (Ministry of Health).
9. Registrar of Companies (Ministry of Industry, Investment and Commerce).
10. Administrator General (Ministry of National Security and Justice).
11. Management Institute for National Development (Efficiency and Reform Directorate, Office of the Prime Minister)
12. Jamaica Promotions Corporation - JAMPRO (Ministry of Industry, Information and Commerce).
13. Construction Division of the Ministry of Local Government and Works.
14. Registrar General's Department
15. Registrar of Companies
16. Administrator General
17. Management Institute for National Development
18. Planning Institute of Jamaica
19. Construction Division of the Ministry of Local Government and Works

The diagnostics led to: a Modernization Plan for each agency, indicating the nature, timing and cost of various activities to be undertaken; a Medium-Term Financing Plan, indicating the estimated receipts, expenditures and sources of financing for the next 5 years; and a Framework Document, indicating the respective rights and obligations of the government and the management of the agency.

Jordan – functional review of the Department of Administrative Development

A functional review was undertaken in 1999 following the merger of some central agencies to create the new Department.

Kazakhstan – 1998 functional review⁶⁶

⁶⁶ See (Wilkins 2001)

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Kazakhstan, as part of a public sector reform program, undertook a Functional Review in response to a 1998 revenue shortfall and the need to cut 1999 budgets. The objectives were to:

- align state functions with the aims of a market-oriented economy, constitutional obligations, and social priorities;
- eliminate any inappropriate functions; and
- restrict funding of functions to resource levels likely to be available in the 1999 budget.

The Budget Commission, headed by the First Deputy Prime Minister, proved to be a robust oversight body for the inherently political process underlying Functional Review. It was effective in carrying out consultations behind the scenes and in dissipating tensions. Meanwhile, the process managed by the Ministry of Finance featured:

- systematic review of all budget-funded entities by function;
- classification of all budget entities as state management or commercial service functions;
- subdivision of commercial service functions into services mandated on the state and contestable services;
- corporatization and hiving off of contestable commercial services into Non-budgetary State-owned Enterprises (NBSOE) under contract to budgetary entities;
- elimination of unfettered authority to create and staff commercial service functions;
- amendment of the civil code to define different types of entities and facilitate corporatization;
- attempted consolidation of budgetary entities' off-budget revenues into the budget; and
- special arrangements in the health and education sectors to promote competition for contestable services and to legitimize through user charges formal and informal payments.

The outcome of the process was proposed staffing reductions of 23,762 positions (25%) for apparatus of central executive bodies, 2,064 positions for other budgetary state entities, and 302,783 positions taken off budget for 600 proposed NBSOEs. Kazakhstan anticipates clearer functional definition, considerably fewer budgetary entities, a lower wage bill, reduced administrative expenses, enhanced Ministry of Finance capacity for post-management, and uniform staffing standards across ministries. The process has already been effective in linking the review with reform of the budget process.

Kazakhstan is known among former Soviet Union transition countries as the "master of agency creation" for its NBSOEs. The review validated concerns about contracting out services on a large scale in the absence of a substantial private sector and without an institutional framework and capacity for managing contracts. NBSOEs are mandated to offer residual services outside government. They apply an implicit subsidy to the private sector and build up fresh arrears whenever they operate on less than full cost recovery. The extent to which the government budget is obliged to

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cover their liabilities is not clear. State control can be illusory when the mechanisms for enforcing contracts, within and outside government, are weak.

*Latvia – 1999 functional review of the Ministry of Agriculture*⁶⁷

During 1999-2000, Latvia conducted ministry-based Functional Reviews in agriculture, economics, and justice. The Bureau for Public Administration Reform wanted to develop a methodology that could be used by ministries to review the relevance of their functions and associated structures. The Ministry of Agriculture agreed to pilot the methodology prior to implementing reviews in other sectors. All central ministry and agricultural subsidiary and territorial bodies, including education establishments, were considered within the review, although it did not examine self-financing fisheries enterprises or state forestry subsidiaries being reviewed separately.

The methodology was developed in partnership with international and local consultants, together with a ministry working group. Interviews were conducted with over 100 sector stakeholders using a structured questionnaire to identify existing functions. Each function was tested against a custom-designed analytical framework to determine how they should be treated. Draft proposals were reviewed in workshop with departmental heads to prepare realistic recommendations.

The review resulted in comprehensive ideas for abolishing, rationalizing, privatizing, and transferring functions within the agriculture sector, together with recommendations on how remaining and new functions could be restructured into effective organizational units for the medium and long term. The report proposed that the central ministry structure be modified to ensure clear separation of strategic planning and policy support functions. It was further recommended that strategic planning, institutional reform, and European Union integration functions be unified to ensure effective coordination of sector policies. Performance agreements managed by central ministry operations directors in each sub-sector are intended to strengthen weak accountability arrangements for subsidiary bodies.

The review identified 161 separate functions, of which nine were pegged for privatization, 40 for rationalization, and twelve for transfer to other sectors. The effect was to reduce the number of ministry-funded staff from 8,280 to 3,196, with 4,891 positions privatized or transferred. There is a 6% net reduction in remaining positions due to internal reorganization. Streamlined decision-making, improved policy-making and implementation, and strengthened accountability for subsidiary institutions are expected.

A follow up evaluation (István 2000) confirmed that the process of reorganization closely followed that proposed by the review and that resistance to implementation among staff was relatively low due to a good understanding by staff of the methodology of the plan's preparation. The final structure of the Ministry was influenced rather than determined by the review, and senior managers accepted the methodology and have become "owners" of most of the findings and recommendations.

⁶⁷ See (1999)

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Macedonia – 2001 wage bill reduction review

Details are provided in section 1 of the paper.

*New Zealand – reviews of the State Sector*⁶⁸

The Government Management: Brief to the Incoming Government 1987 (New Zealand Treasury 1987) was a remarkable document. (Schick 1996) offers a detailed analysis. In essence this was a Treasury-led comprehensive review of the policies of successive governments in the light of what it saw as the intrinsic tendency of state organizations to "pursue their own goals, to shirk and to featherbed" (New Zealand Treasury 1987, p.38). From an explicit set of propositions concerning what the state was and was not good at doing, and concerning the arrangements that the state should use to undertake those (fewer) tasks that it should retain, the review then proposed both radical reforms in the policies of government and in the machinery of government necessary to undertake those policies. The review was an expert-based, top-down review undertaken without the participation of the line agencies.

As is well known, the subsequent reform process followed two main strands (Boston 1996; Boston, Martin et al. 1996; Manning 1995):

- State trading bodies were transferred from the core public sector into commercially driven public corporations. SOEs have substantial managerial autonomy under performance agreements with ministers. The purchase, supply, and subsidization of agency outputs are controlled through measurement of government strategic results and agency key results. There are clear incentives for performance. Many SOEs were privatized to the benefit of taxpayers and government economic and social policies.
- The remaining core public service and financial management regimes were reformed. Policy advice was separated from service delivery functions for many departments. Chief executives have time-limited contracts and specific performance agreements with ministers. Major restructuring in many sectors resulted in a 50% downsizing of the public service. Accrual accounting and charging for the capital invested in Crown organizations were part of the reform package.

(Steering Group 1991) was an associated follow-up review that reported on the subsequent implementation of the comprehensive New Zealand reforms, with a strong emphasis on accountability rather than efficiency. This was also an expert-based review, reporting directly to a Cabinet Sub-committee with quality control provided by a small project management group including officials from a range of departments. The review used interviews with ministers, group interviews, and a survey of chief executives, supplemented by case studies.

*Nicaragua – structure and function diagnoses*⁶⁹

In Nicaragua, structure and function diagnoses of nine government agencies led to a program of emergency cuts and a new executive branch organization law streamlining

⁶⁸ See (New Zealand Treasury 1987; Steering Group 1991)

⁶⁹ See (Wilkins 2001)

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central government. Project direction for Functional Review comes from the Vice Presidency.

*Papua New Guinea – functional reviews*⁷⁰

Papua New Guinea is conducting an extensive Functional Review as part of its public sector reform program. Reviews of treasury and finance, foreign affairs, central supplies, tenders, defense, and civil aviation functions have been carried out under the direction of the Public Sector Reform Unit in the Prime Minister's Office, with outside consultancy assistance. Reviews of other central agencies (personnel management, public service commission, Prime Minister and Cabinet, and planning and monitoring) are underway. Major spending and service delivery agencies (health, education, public works, lands) will come next.

The boundaries of each review are very wide. They tackle policy issues and exercise lateral thinking in diagnosing what needs fixing. Some expenditure cuts have been identified and are expected to be fed into the 2001 budget process. It is less clear how many of the proposed cuts will actually be implemented.

Tanzania reviews:

*Review for agency status*⁷¹

In 1994, Tanzania decided that eleven trading functions should become executive agencies to improve public service delivery and earn their own operating expenses. These included the government press, central medical stores, radio broadcasting, electrical and mechanical, and companies registrar. With the exception of the central medical stores where the World Bank provided technical and financial support, none of the candidates made any real progress.

Under the direction of the Civil Service Department and with technical assistance from the UK, Tanzania launched the Executive Agencies Project in 1997. The principal constraint to progress under the 1994 initiative was identified as lack of a clear policy framework within which agencies could be set up and operated. In other words, the government and agencies had started doing even before they had clearly thought through what needed to be done.

Before setting up any agencies under its 1997 framework, the government decided to consider the process for assessing service delivery options, along with a host of other policy fundamentals. Abolition, privatization, contractorization, and rationalization were the alternatives to agency status assessed. Clarity, self-sufficiency, modern management practices, client satisfaction, and continuous improvement criteria were used to determine the best delivery option for each candidate. This examination also ensured that only essential government functions were retained and that executive agencies were differentiated from other forms of government-owned or funded organizations like parastatals. The case was set out in an Alternative Options Paper for approval by the ministry and notification of central authorities.

⁷⁰ See (Wilkins 2001)

⁷¹ See (Wilkins 2001)

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The government adopted an "eyes on, hands off" approach, emphasizing that agencies' parent ministries would be watching what was going on at a strategic level but would not get involved in day-to-day operations. A small advisory board was also set up for each agency. Working within this framework, three organizations were made executive agencies by April 1999: the civil aviation authority, the dams and drilling organization, and the national bureau of statistics. Another 35 organizations have been reviewed and recommended as agency candidates.

Organization and efficiency reviews⁷²

In 1996, with extensive donor funding, the Government instituted "organizational and efficiency reviews" to prepare recommendations for (i) reorganizing the structures of Government ministries and departments "with a view to improving efficiency and effectiveness in the deployment of personnel, utilization of resources, internal decision-making processes and communication systems", (ii) identifying "opportunities for efficiency gains in Government through the application of norms in staffing and improved work methods", (iii) identifying "feasible opportunities for cost recovery and improved budgetary allocations in the delivery of specific services by the Government", and (iv) improving "the government's management systems (i.e. planning, budgeting, public administration, project implementation, personnel management)".

The reviews were undertaken by an expert team and began by evaluating how each ministry and department "should be organized", given its redefined roles and functions. The reviews drew on the 1992 Study on the Functional Review for Ministries, Regions and Districts that was carried out under a UNDP funded project.

The review of each ministry or government department was envisaged as a two-stage process. Phase 1 was an analysis and consideration of the role of government and the consequent institutional development requirements arising from that role. Phase 2 was to build on the review process, leading to an articulation of the various measures required to build (or re-build) the ministry. Phase 1 comprised:

- (a) A review of the current operations of the ministry/department at the central, regional and local administration levels with particular focus on the relevance, scope and level of service being provided and the efficiency of operations;
- (b) An analysis of the main issues and their policy and strategic implications;
- (c) Identification of the role of government consistent with current policies for economic liberalization and for reducing the functions of the public sector in the provision of economic services;
- (d) An investigation of the opportunities and scope for cost-sharing and enhanced cost recovery for services that should continue to be provided by the government.

Thailand – 2000 functional reviews⁷³

⁷² see: (Civil Service Reform Programme Steering Committee 1996a, b, c, d, e, f, g, h, i, j)

⁷³ See (Wilkins 2001)

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Thailand has embarked on Functional Review as a key activity in its public sector reform program. Reviews in 2000 of its six economic ministries identified requirements for process reengineering in the commercial registration and lands areas, as well as reforms in revenue, customs, and social security. Service users were involved in the process to help develop a client focus and improve performance. In practice, the reviews focused more on rearranging boxes than on analyzing proper ministry functions and fundamental issues like ceasing, contracting out, or delayering operations.

Nor have the reviews been well integrated with broader reforms needed to ground key decisions on fewer staff and reduced costs. Civil service staffing has been targeted for a 10% reduction by 2002. The latest forecast indicates that only a 3% reduction is achievable based on current measures. The means of attaining the downsizing target has shifted to transferring staff to local administrations.

UK reviews:

*Prior Options reviews*⁷⁴

Since 1988, the UK has established more than 140 Executive Agencies, comprising 75% of the civil service. The Next Steps initiative was driven by the Prime Minister's Office and managed centrally through a formal selection process. The design of the agencies encompasses framework agreements, annual performance agreements, performance pay, advisory boards, and three-year evaluations. Chief executives report to a minister but can answer questions in public and before Parliament.

The creation of Next Steps agencies was one of the options that emerged from the systematic application of "Prior Options" tests to ministries and departments. The questions asked in these tests are:

- Is the function provided in the past still needed, or can it be abolished?
- If the function is still needed, should it be privatized or financed publicly?
- If the function should be public, can the work be contracted out?
- If government should provide and finance the function, can mainstream government or an executive agency deliver it more cost-effectively?

A multi-ministry review team carries out the Prior Options Review according to a common process and methodology. In addition to central agency quality control, an advisory group is attached to the review. Issue papers, terms of reference, and the full findings are published. An executive agency is only established once the minister responsible rules out all other options.

The principles under which Next Steps agencies are created require that their status be reviewed every five years. A further Prior Options Review is carried out according to Cabinet Office guidance and an agreed timetable. These reviews:

- Re-examine the options considered before creating the agency in light of experience and any changes in internal and external circumstances;

⁷⁴ See (Wilkins 2001)

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- Test rigorously whether the agency function is required at all, or whether there is any scope for privatization, contracting out, transfer to another body, repatriation to the department, or continuation of agency status;
- Consult widely with agency management and staff, the parent ministry, customers, interest groups, and other suppliers of similar services;
- Assess the practicability and value for money of each option; and
- Make recommendations to the minister responsible.

The public and interested parties are invited to participate through their comments, while alternative suppliers can submit proposals when solicited through market testing.

*Better Quality Services and Best Value Reviews*⁷⁵

The aim of these reviews is to set improvement targets and to determine the best option for delivering "best value". The principles of the reviews are most simply described as: Challenge, Compare, Consult and Compete.

- Challenge why and how a service is being provided;
- Invite comparison with others' performance across a range of relevant indicators, taking into account the views of both service users and potential suppliers;
- Consult with local taxpayers, service users and the wider business community in the setting of new performance targets; and
- Embrace fair competition as a means of securing efficient and effective services.

For central government, Better Quality Services Reviews cover a specific service or part of a department (e.g. HQ personnel function) rather than the whole organization. The aim of each review is to reconsider what service is needed, in consultation with users, and then identify the best supplier to deliver both cost and quality gains year on year.

Each BQS review considers the following five options:

- Abolition;
- Internal re-structuring;
- Market testing;
- Privatization; or
- Strategic contracting out.

Local governments must devise a program of Best Value Reviews and publish then in a "Best Value performance plan". The programs must cover all Council services and activities, over a 5-year cycle (although in the Act, the actual time is left to the Secretary of State to prescribe by Order). There are wide powers to the Secretary of State to prescribe by Order not just the timetable, but for specified functions to be reviewed in specified financial years. The Secretary of State may also make different provision in relation to different authorities.

⁷⁵ See (Cabinet Office 2000a, b; Department of Environment 2001; Improvement and Development Agency 2001)

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Councils may choose how to program their reviews, so long as they make, in the words of the White Paper, 'early inroads' into the weakest services. They may choose to prioritize reviews in areas:

- which are particularly significant in budget terms and there is considerable scope for improvement,
- where local people have a particular interest or concern,
- which face legislative change,
- which are subject to new government policy initiatives,
- which are subject to new bidding regimes,
- where innovation is sought,
- where a new cross-cutting approach is to be tried, or
- where a contract is due for re-tendering.

They will have to be able to provide reasons for the order and priorities within the program.

One of the goals is to encourage programs of reviews on a cross service and/or multi-agency basis including those that address 'wicked issues' such as sustainable development or community safety.

*Market Testing*⁷⁶

Market testing is the procedure introduced in 1991 to determine the feasibility and efficiency of contracting out services. It can be compared with make-or-buy decisions in business used to leverage cost-savings, innovation, and quality. Ministries were required to review their activities to identify which ones should be put to tender for bids from both public and private sector sources. They brought in private sector help to analyze the most promising areas for privatization and contracting.

The questions asked include:

- Is this function essential? What are the implications of not doing it, or of doing it in a reduced or combined way elsewhere?
- Can the function be performed more economically by other means?
- What is the full cost of the service level currently provided and of that considered necessary?
- Is the function organizationally discrete?
- What are the work methods, organization, and use of capital assets?
- What are the plans for utilizing existing staff and assets?

*Fundamental Expenditure Reviews*⁷⁷

⁷⁶ See (Wilkins 2001)

⁷⁷ See (Wilkins 2001)

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By 1993, the UK had largely decentralized service delivery and devolved central management responsibilities to executive agencies. Smaller ministries had fewer resources to meddle in agency affairs, focusing instead on strategic management decisions and enforcing accountability frameworks. Fundamental Expenditure Reviews were developed as a tool for ministry downsizing and realignment.

The Treasury took a top-down stance in reviews to examine long-term spending trends, alternatives for more economic and effective service delivery, and opportunities to withdraw services altogether. These reviews were policy driven and did not take any element of a ministry's work arrangements for granted. The issues at stake included:

- Why is the service provided? Is it provided in the right way?
- What methods of consultation exist? What improvements are planned?
- What measures are available? How does performance compare to the best?
- What competitive alternatives are available? Should new alternatives be created?

Ministries undertook their own reviews within a phased program covering major areas of government spending. Prodded by cuts in operating budgets, they were forced into asking what was worth doing and what should be divested or delegated. The Treasury itself conducted a Fundamental Expenditure Review on its running costs, including a detailed review of the senior management structure. The review resulted in revised departmental objectives, core functions based on Treasury staff's comparative advantage, transfer of remaining civil service management functions to the Cabinet Office (OPS), a streamlined top management structure, a flatter and more roles based team structure, and a reduction in senior staff posts from 100 to 75.

US reviews:

'Bottom Up' review of the Department of Defense⁷⁸

The Secretary of Defense was requested by the President in 1993 to prepare a review of military needs of the United States over the coming 10 years. The two fundamental issues to be addressed by the review were:

1. The continued justification for nuclear weapons following the end of the cold war;
2. The structure of the military to deal with regional conflicts.

The Review was widely seen as a defensive maneuver by the Department of Defense as it led to a justification of existing spending.

⁷⁸ See (General Accounting Office 1995; Peters and Savoie 1998)