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Rebuilding state structures: methods and approaches

The Trials and Tribulations of
Post-Communist countries



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Abbreviations

CBEP Working Group	Working Group on Reform of Central Bodies of Executive Power (Ukraine)
CIDA	Canadian International Development Agency
CIS	Commonwealth of Independent States
DFID	Department for International Development (Great Britain)
ECIS	Europe and Commonwealth of Independent States
EU	European Union
IFI	international financial institution
ISPA	Instrument for Structural Policies for Pre-accession (European Commission)
MT	Management Team
NATO	North Atlantic Treaty Organization
NGO	Non-governmental organization
OECD	Organization for Economic Cooperation and Development
OSI	Open Society Institute
PAR	Public Administration Reform
Phare	Program financed by the European Communities to assist the applicant countries of Central Europe in their preparations for joining the European Union
PHRD	Policy and Human Resources Development Fund (World Bank)
RIU	Reform Implementation Unit
SIDA	Swedish International Development Cooperation Agency
SIGMA	Support for Improvement in Governance and Management
SMSACIFA	Secretariat of the Minister for Special Assignment for Cooperation with International Financial Agencies, Latvia
SWG	Sectoral Working Group
TACIS	Technical Assistance to the Commonwealth of Independent States and Mongolia (European Commission)
UNDP	United Nations Development Program
USAID	United States Agency for International Development
WB	World Bank

Preface

This publication reviews the use of functional review as a tool for public administration reform in the Europe and CIS region. The failure to transform systems of public administration in the region from politicized, demoralized and ineffective systems of governance to professional and accessible institutions, suitable for performing a pivotal role in the policy process, has stimulated the search for new methods and approaches in conducting reform. Public administration reform, often considered to be of limited importance in the early years of the transition, is now widely seen as a condition for success in economic development. As a result, answers to the question how the deadlock in administrative reform processes can be broken are sought ever more widely. Functional review is often seen as part of the solution. It is a tool that, if properly applied, can in principle help to open up issues that previously could not be addressed and force a breakthrough on questions over which there is deadlock. It can help states facing painful questions on wider restructuring and re-orientation or of the role of the state. However, if improperly used, functional reviews can also lead to a polarization of reform debates, and a further entrenchment of positions.

During the last five years, functional review has been used as a reform tool in almost half of the states in the region. It is striking that an instrument so often associated with managerialism has found such wide application in this region, which often is considered 'conservative' at best in its approach to public administration reform. This begs the question of whether there is a genuine interest in the region, or whether functional review is yet another reform tool 'imposed' on governments by outside actors.

Indeed, in some states, functional review processes have been highly controversial, and were seen as an essentially Anglo-Saxon tool, a trademark of DFID, USAID and the World Bank. In these cases the conduct of functional review processes has often been extremely difficult, and results have often been sub-optimal, mainly due to a self-fulfilling prophecy of non-applicability. In these cases functional review processes were perceived as 'part of the deal', governments would allow a review to be conducted as part of an overall grant or loan facility, creating the risk that the review process was undertaken as a mere formality. However, this is only one part of the picture. An assessment of the way functional review has been used in ECIS states also highlights successes. In these cases, review processes have been supported by a broad coalition of donors, including in many cases UNDP, driven by a genuine desire on the part of governments to make a breakthrough in reforming public administration systems that had become an impediment to successful economic reform. In these cases review processes have often helped to put reform measures that previously could not be considered on the political agenda, and stimulated a radical and much needed change in administrative organization and practice. This, in turn, constitutes one of the basic conditions for a more successful economic reform process.

This publication tries to answer the question 'how and under what conditions' functional review can work as a tool for stimulating deep reforms in state administration. For this, a number of key cases from the region will be reviewed. Together with a general review of methodological and organizational questions surrounding functional review, this will provide insight into what we call the 'do and don't' of functional review in the specific context of transition states. The material presented here should be seen as a guide to the often-complicated processes of framing and conducting a review process and implementing their findings. Finally, this publication should serve to help allay the fears of those who see the functional review process as a threat to their organizations, as well as assist those who are interested in creating systems of public administration that will be truly at the service of the citizens of the region.

Tony Verheijen

Bratislava, Slovakia, 19 November 2001

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How to Build a More Effective Approach to Public Administration Reform

1.1. INTRODUCTION AND RATIONALE

Structural reform of state administrations has emerged in recent years as a key element of the reform of governance systems in the Post-Communist states of Central and Eastern Europe and the former Soviet Union. The increased interest in this area of Governance stems from the growing perception that inadequate public administration systems constitute a key impediment to economic development in the region. The growing emphasis on structural reform is a result of the fact that much of the early attempts to reform public administrations through the development of civil service systems failed as a consequence of the lack of attention for structural reforms. Recent attempts to rationalize administrative structures and procedures are thus in many ways an attempt to redress the balance in public administration reform efforts.

A further important development in this area is the gradual move towards a more sophisticated approach in the reform of administrative structures. Whereas states in the region tended to use across-the-board cuts in staff numbers as the main reform tool in the earlier stages of the reform process, there has been during the last few years a move towards using different reform tools. One key reform tool, applied in some ten states in the region in recent years, is functional review. This publication analyses the use of functional reviews as a reform tool in the region, based on a review of six country cases, and sets out conclusions as to what constitute the main factors of success and failure in using the specific reform tool.

Good Governance and the place of public administration reform

UNDP views the development of systems of 'Good Governance' as an instrument for meeting the UN Millennium Summit objectives: to reduce poverty by 50% by 2015. 'Good Governance', however, is a concept that is often used without full

explanation of what is meant. Governance, Democratic Governance and Good Governance are concepts that are often mentioned, but rarely operationalized. The following brief explanation of what is understood by these concepts in the context of this publication will also clarify how the subject of Public Administration reform relates to the discussion on building Good Governance and ultimately Poverty Alleviation.

Governance in the context of UNDP programmes is understood as the process through which societies take and implement decisions on the allocation of public resources to address societal needs. Governance as such is therefore a neutral term, it does not carry a positive or a negative 'loading'.

Democratic Governance implies that the governance process is organized based on broad participation of all groups in society, that the institutions through which decisions are formulated are open to societal participation that these take full account of inputs from society. It also means that the implementation of decisions proceeds based on participatory principles.

To have a democratic system of governance does not necessarily imply that one has a system defined as 'Good Governance'. Whereas democratic governance is now generally considered as a condition for the development of Good Governance, it is not sufficient on its own. Democratic Governance, if not well managed, can be highly ineffective, and lead to a waste of public resources.

Good Governance therefore implies that the governance process is not only conducted based on democratic principles, but that it also respects the principles of effectiveness and efficiency, in other words, that societal problems are addressed timely and with a minimum use of available resources. Good Governance is therefore a combination of democratic and effective governance.

Systems of public administration are one of the key factors that determine what type of governance

system develops in a state. Ideally public administration should be a bridge between politics and society, effectively channeling societal inputs into policy options, delivering public goods and services fairly and effectively and providing the necessary regulatory framework for economic activities. The development of a system of Good Governance requires that systems of public administration should be both open and democratic and effective and efficient. Open and representative systems of public administration can hinder the development of systems of Good Governance if they are not able to deliver policies in a timely and efficient manner. Effective, high quality systems of public administration can still constitute an impediment to the development of 'Good Governance', if such systems are not representative of the interests of society and closed to public participation.

Changing patterns: Public Administration reform in Central and Eastern Europe and the Former Soviet Union

The conditions for the development of open, representative, effective and efficient systems of public administration in Central and Eastern Europe and the Former Soviet Union have been far from favorable throughout the 1990s. The previous regime left these states with a legacy of politicized and fragmented administrations, ill-suited to performing the framework-setting role that public administrations are expected to play in modern democracies. The neglect of public administration as an institution in most states in the region during the early years of the transition further aggravated the situation. The renewed attention for public administration development in recent years has coincided with a period of economic hardship in many states in the region, in particular in Southeastern Europe and the CIS, which has left little room for the necessary investment in upgrading capacities. However, the gradual move towards a more rational approach to reforming systems of public administration in an increasing number of states could mark a turning point in administrative development.

The legacy of the previous regime in terms of public administration has been highly negative. First, systems of public administration were highly

politicized, with political reliability and loyalty a key criterion in the recruitment and promotion process. Even if in a number of states in the region attempts were made to professionalize administrations in the 1970s and 1980s¹, political loyalty generally continued to prevail over professional qualities when recruiting and promoting staff. This runs counter to the very principles on which the development of professional systems of public administration is to be based.

Second, public administrations in the region also did not play a role in channeling societal interests, as this was the function of the Party Administration, an institution formally abolished in most states in the early 1990s. In terms of service delivery systems of public administration were expected to strictly apply the Law. Public administration systems thus became mainly policy implementation machines.

A third characteristic of public administration systems under the previous regime was their extensive involvement in economic management. Administrations were designed according to an economic branch model. This created a system with a large number of ministries, each responsible for a specific sector of the economy. The orientation of ministries was thus vertical, towards the sector of the economy they were covering, and focused on control and enforcement, rather than on policy development. Policy co-ordination was largely a matter for the Party administration.

The conditions for establishing open and professional systems of public administration in the region were therefore far from favorable. However, this applied to most, if not all, elements of the institutional systems in place in the states of the region. At the same time, more than ten years after the start of the transition in the states of Central and Eastern Europe and the former Soviet-Union, much progress has been made in the creation of professional parliaments, constitutional courts, Ombudsman and Human Rights institutions, and even in the reform of the judiciary.² Systems of public administration, however, remain one of the weakest links in the institutional development process and one of the foremost cases of 'reform failure' in the region.

¹ In particular in Hungary, with the development of the Public Administration 'college' as a professional institution, to a lesser degree also in states such as Poland and Bulgaria

² Even if judicial reform remains a complex area, where progress has been insufficient in many states

The question is to what degree reform failure in developing open, effective and efficient systems of public administration matters.

In the early years of the transition, public administration reform was viewed as a marginal element of the institutional reform process. The prevailing influence of Neo-Liberal approaches to institutional reform, together with the strong counter-reaction against the all-pervasive role of the state under the previous regimes, combined to create a focus on reducing the role and size of the state. As a result, there was a lack of attention for capacity building in administrative systems, which were seen mostly as a danger to reform processes, to be circumvented and marginalized. At most, attempts were made to design and implement civil service legislation in order to stabilize administrative systems, as frequent turnover in staff and falling ethical standards were seen as a risk to the economic reform process.

Economic reversals in many states³ in the mid and late 1990s brought an increasing awareness of the link between economic underperformance and the presence of weak systems of public administration, while at the same time there was a growing recognition of the potential role of state administrations in facilitating economic development. However, the change in perception of the role of public administration in reform processes came at a time when many states were under austerity programs, and thus were required to further reduce the role and size of the administration.

Even if the importance of Good Governance for achieving stable economic development, and by extension the need to develop open, professional and efficient systems of public administration, was by then generally recognized, the prevailing approach to reforming systems of public administration did not change initially. The emphasis remained on across the board cuts in structures and staff.⁴

It is only during the last few years that a fundamental shift in the approach to reforming public administration systems has emerged. This shift in approach implies:

- A move from partial approaches to reform to holistic approaches;

- A move from across-the-board reductions in staff and structures to a mixture of seeking efficiency gains while investing in building capacities where these are lacking;

- Seeking a balance between a focus on internal reform and changing the relations between public administration and society.

A continuation of this pattern of development could eventually lead to systems of public administration becoming a catalyst for change rather than an impediment to reform, and could thus contribute to the development of systems of Good Governance in the region.

Changing reform tools: using functional review of state administrations

The increased use of functional review as a reform tool is a key element of the change in approach to rebuilding systems of public administration. The initial approach to public administration reform was largely 'reform by legislation'. Reform strategies adopted by various states in the mid-1990s were often little more than a framework for the development of legislation. Strategies were rarely based on in-depth analyses of the structural problems of state administrations. The development of Civil Service Laws and Laws on the Organization of the State Administration, as well as related legislative acts, such as Public Procurement Acts and Freedom of Information Acts was seen as the main cure for the ailing state administrations in the region. Laws were developed based either on various 'Western' models or on pre-Communist traditions. However, laws were rarely adopted and even more rarely implemented. Where laws were implemented, their impact remained limited, as modern principles of public administration were superimposed on outdated organizational structures.

From the mid-1990s onwards, reform-by-law was increasingly combined with reform-by-across the board cuts. Starting with Hungary in 1995, a number of states, as diverse as Bulgaria, Slovakia, Kazakhstan and Kyrgyzstan, ordered across the board reductions in staff numbers, in many cases without studying the implications for individual institutions.

³ For instance, the strong economic slowdown in the Czech Republic after 1996 and the collapse of the Bulgarian economy in 1996

⁴ With the exception of a small number of states, such as Poland, Latvia and Bulgaria, where a more comprehensive and sophisticated approach to public administration reform was started earlier on, starting from 1996

Across-the-board cuts have the disadvantage of 'freezing' existing imbalances in administrative systems. This can be particularly damaging in the case of Post-Communist states, as in practice this has meant freezing an underdeveloped central apparatus of the state administration, while retaining a plethora of subordinated institutions that an ever-weaker central administration is increasingly unable to co-ordinate and manage. More importantly, in the context of the above discussion on principles of Good Governance, this approach to reform fundamentally weakens accountability lines, and thus leads to less democratic control over the state administration. The centrifugal tendencies that this approach to reform generates led to absurd situations in states such as Latvia, where core institutions 'opted out' of the public administration system, leaving an already skeptical citizenry with the impression of being governed by a non-responsive self-interested administration.

Latvia was also one of the first states that chose a different approach to Public Administration Reform, trying to rationalize the structure and management processes in the state administration based on the conduct of a Functional Review. Since 1996, several states have moved away from the unsuccessful approach to public administration reform of the early and mid-1990s and have based reform strategies on the result of functional reviews. Some ten states in Central and Eastern Europe and the former Soviet-Union have conducted functional reviews in the last five years. In recent years a significant number of states in the region have built up experience in using this reform tool. Their experience is of great potential importance to other states in the region. There are many lessons to be learned for the future, in particular as to whether and under what conditions the use of this reform tool can contribute to the development of a more suitable and successful approach to public administration reform.

This publication has two main objectives. One objective is to 'de-mystify' the concept of functional reviews. Like 'Good Governance', 'Functional Review' is a term often used, but rarely explained. This publication will thus shed light on the various types of functional review processes that have been applied as well as analyze the methodological tools used in functional reviews, in order to come to conclusions what type of review process would fit what type of reform objective. The second objective of this publication is to examine how and under what conditions it makes sense to conduct a

functional review as a part of a public administration reform process. Overall, the publication aims to assist policy-makers in Post-Communist states in making an informed choice about what reform tools are most suitable for their particular situation, and what previous experiences they could draw on in framing the reform process for their state.

2.2. KEY PROBLEMS IN PUBLIC ADMINISTRATION SYSTEMS IN THE POST-COMMUNIST STATES OF CENTRAL AND EASTERN EUROPE AND THE FORMER SOVIET-UNION

Any discussion of the relevance of functional review as a reform tool should start with an assessment of the main features of the former systems of public administration. Three overarching features of the former systems of public administration in the region were already highlighted in the previous section, their party political nature, their intrinsic lack of responsiveness to societal demands and their heavy involvement in economic management. These three overall features are in stark contrast to what modern systems of public administration are supposed to be: professional, responsive to citizens and society at large, and policy oriented. A further question is how these three key features were reflected in the organization and management of public administrations, the answer to which is a crucial factor in determining whether and to what extent functional reviews can be a relevant reform tool for the states in the region.

At the outset of this discussion, it is important to note that regardless of a high level of diversity in administrative systems and cultures, there are still a number of common features, which to a lesser or greater degree can be found in virtually all administrative systems. Studies conducted by the World Bank (Nunberg 1998 and 2000), the OECD (in particular SIGMA papers 23 and 26), as well as the annual assessments of administrative capacity conducted by the European Commission repeatedly stress the same common features of virtually all systems of public administration in the region:

- There is a general lack of a concept of the role of the state in economic and social transformation processes;

- Many ‘leftover’ elements of the previous system remain, even if functions are transferred, administrative structures are kept;
- Administrative systems lack transparency and coherence;
- There is a strong dominance of ‘verticalism’ together with underdeveloped systems of political and administrative co-ordination, in many states exacerbated by problems in coalition management;
- There are many overlaps but also gaps in functions;
- A strong focus on mechanical and technical work remains, with limited attention for strategic thinking and policy development.

The above points are also reflected in all six country studies that were conducted for the purpose of this policy paper, which included states as diverse as Slovakia and Kyrgyzstan. Furthermore there is a general feeling, as indicated in the previous section, that in many states up to now little has been done to address these fundamental problems in systems of public administration. Politicians have mainly resorted to across the board cuts and the adoption of legislation, without attacking the root causes of the sub-optimal performance of public administration systems.

The lack of a clearly defined concept of the role of the state

There is still no consensus in many states in the region on the role of the state, even if one looks at this in a sector-by-sector manner. The initial move towards a minimal state, under neo-liberal influences, has been gradually supplanted by a more balanced view of the role of the state in the socio-economic system. However, there is still no over-arching agreement on what role the state should exactly play in the delivery of social services and, in many states, also in the management of the economy. The situation is slightly better in Central and Southeastern Europe, as EU membership obligations to some degree set guidelines for what functions the state should perform as a minimum. National systems have to then be built around these EU obligations. However, even in these states numerous choices remain, for instance about

health, education and social welfare systems. In other parts of the region, in particular in Central Asia and the Caucasus, the direction is even much less clear. Without a conception of the role of the state, it is very difficult to define the type of administrative system one needs. The lack of progress in reforming public administration is therefore certainly in part due to the lack of consensus on what public administration should actually do. Even though ideally functional reviews should be conducted on the basis of an existing policy on the role of the state, they can make a contribution to move forward the process of thinking on this issue. In particular, functional reviews can help by providing decision-makers with comparative benchmarks, for instance about states of similar size in Europe or Asia⁵ that politicians want to identify with. This method was used extensively in the functional review in Slovakia⁶ and did help bringing about political decisions on the extent of state involvement in some economic and social sectors. It is obviously preferable for a strategic framework for the role of the state to be agreed on in advance, but benchmarking may provide an alternative in case this proves impossible.

‘Leftover’ elements of the previous system

Several of the country reports mention the presence of leftover structures from the previous system of governance. As public administration under the previous system was heavily involved in economic management and direct delivery of services, the structure and management of public administrations was also oriented in this direction. One would expect that a number of such structures, such as the economic branch ministries that controlled state enterprises as well as units in finance ministries that worked on budget calculations for such ministries, would have disappeared ten years after the start of the transition to a market economy. Even if there was an absence of a clear direction on what the role of the state would be, some institutions are obviously redundant in view of the development of a market economy. Other structures, such as printing and publishing facilities, many research institutions attached directly to ministries, credit and loan management institutions, could also have been either privatized or abolished. However, the functional review in Slovakia, for instance, found

⁵ as is often the case of Central Asia, where Malaysia and Singapore are often quoted as sources of inspiration

⁶ using Denmark and the Netherlands as specific benchmarks and the UK as an example for the management of the reform process

that many of such institutions were in fact still in place in 1999. Economic branch departments were still in place, even if on a smaller scale, integrated in the Ministry of the Economy and with little direct power over industry. A number of institutions dealing with research as well as the delivery of services that could easily be transferred to the private sector were also still found to be operating on the state budget. Similar conclusions were drawn from the review in Bulgaria. Both these states are EU candidate states, where one would have expected to find a much more advanced state of the dismantling of the previous institutional system. The functional reviews in Kazakhstan and Kyrgyzstan, and also in Ukraine, found a much broader network of such institutions still operating. They pose a serious hindrance to economic development, as their influence stifles initiative and uses much needed budgetary resources. In other states, such as Latvia, this factor is less significant, as the new state structures built up after independence shed much of the redundant institutions of the previous system. In the sample of states used here, this was the only case where leftover elements of the previous system were not found to be a feature of public administration. The reform tools applied before the implementation of functional reviews thus did not address the issue of leftover elements of the previous system in a satisfactory manner. Across-the-board cuts and legislative initiatives indeed would seem inappropriate tools to deal with this kind of problem. The result of this is the presence of a large number of redundant institutions in many states in the region, that pose both a drain on budgetary resources and, in some cases, an impediment to the development of a market economy. On the basis of the experience in the region, the conduct of a functional review would certainly seem the most appropriate tool to identify these remnants and suggest solutions for their removal from the system.

Lack of transparency and coherence

The second main common feature of systems of public administration in the region is the lack of a clear system of inter-institutional relations inside policy sectors. Modern systems of public administration are generally built on a clear distinction between types of institutions in any given policy sector, with related systems of accountability. Generally the following types of institutions are distinguished:

- Policy-making institutions
- Regulatory and licensing bodies

- Supervisory bodies
- Inspectorates
- Service delivery institutions
- Institutions under tutelage

Each of the above types of institutions should preferably perform only a single type of function and should have their own specific defined linkage to the other elements of the sector. This should guarantee, for instance, a strong independence for regulatory bodies. Systems of recruitment of management staff and their reporting relations are closely related to the position of the institution in the policy sector. A well-defined system of reporting and accountability is a key element of an effective, efficient and transparent system of public administration. States in the region have struggled with the development of effective institutional systems in policy sectors. The emphasis the European Commission has placed on institution building as a requirement for EU accession should be seen in that light. The functional reviews conducted in the six states, which formed the sample for this publication, and other cases in the region provide clear evidence of the remaining deficiencies in the institutional systems in individual policy sectors. Latvia, for instance, has tried for the last five years to build a coherent public administration system based on the above categorization, but still without having achieved satisfactory results in all sectors. Bulgaria stands out as a positive case where this process was designed and implemented in a comprehensive fashion, thus paving the way for the design and implementation of a comprehensive horizontal law on the state administration and an ensuing rationalization of the public administration system. Functional review can help to identify duplication in function types performed by individual bodies in the state administration as well as deficiencies in the accountability system.

The comprehensive picture provided in this way can subsequently form the basis for the drafting and adoption of framework legislation on the organization of the state administration. Furthermore it can help to find the basis for a redistribution of resources from institutions where there is an over-capacity to institutions that are understaffed. The experience from the states in the region has shown that without a thorough analysis of the organization of all sectors in the institutional system, the development of a new legal framework for the organization of the state administration makes little sense.

The dominance of verticalism

In addition to the above problem of lack of a clear organization and transparency in the organization of policy sectors, there is the added complication of weak horizontal management systems in the state administrations. Formerly horizontal management was largely performed by Communist Party structures, where sectoral inputs were integrated into state policy. The disappearance of the Party from the system left public administrations virtually without horizontal management systems. Little has been done to replace these systems. The crisis in politico-administrative relations has created a strong lack of trust between politicians and civil servants in many states, making politicians unwilling to delegate administrative co-ordination to the state administration. This has created a lack of 'filters' in the policy-making systems and resulted in an overload of government agendas. This has been exacerbated by the emerging problems in coalition management, which have come to characterize policy-making systems in many Central and Southeast European states. Problems in political coordination have been piled up on top of the already prevalent problems in administrative coordination. There are some positive exceptions that deserve mentioning. Most EU candidate states have created effective systems of management of EU affairs in their state administration, and have received positive marks for that in Commission capacity assessments. This shows that it is possible to delegate co-ordination and deal adequately with problems of political coordination. However, as so far EU membership is a non-controversial issue in most candidate states, it is not that easy to transfer this 'best practice' to other policy areas. The problem of verticalism is not easily addressed. The numerous failed attempts, for instance, to improve administrative coordination in a state like the Netherlands show that this is a far from straightforward problem. This is an area that requires a change in management practices, which are part of an entrenched political and administrative culture. Functional reviews can add relatively little to the solution of this specific problem, except to help with the identification of its causes. This requires the development of a system review in addition to vertical reviews, in order to bring out the deficiencies in horizontal management systems.

Overlaps and gaps in functions

The continuing extensive overlap in functions performed that has been identified by every single functional review process in the region, and is in part an effect of the lack of a strategic direction discussed in the first point above. Nevertheless, the elimination of duplication should be a key priority for governments that are generally in a difficult budgetary situation. In addition, the point made in the previous section regarding the lack of horizontal management systems indicates that there are also many potential gaps in functions. These are not only the obvious gaps, like the creation of new functions and institutions for EU membership in EU candidate states, but also others. The development of modern systems of personnel management, for instance, has been identified as a gap in many states in the region, including in several EU candidate states. System reviews⁷ and horizontal reviews⁸ can be very useful tools to help identify where there is a scope for rationalization of functions and where investments in capacity building are required.

A strong focus on mechanical and technical work, with limited attention to strategic thinking and policy development

Reviews and reports on public administration in the region all point out the problem of policy-making capacity. As has been pointed out before, public administrations in Communist states used to be mainly implementation machines, with little or no role in policy formulation. Even though the role of public administration in the new systems of governance in the region should be fundamentally different to that under the previous system, focused much more on assisting politicians in policy development and channeling societal inputs into policy proposals, in reality there appears to be little change. The lack of policy-making capacity is reflected in virtually all assessments of administrative capacity in the region. There have been attempts to develop government strategic units in some states, but where they still exist they remain at most a type of government sponsored think tank, which should be one among many elements of a policy development system. A recent OSF report on policy-making in Slovakia (OSF Slovakia, 2001), for instance, paints a picture of an administration that 'contracts out' most policy

⁷Reviews that assess the existence and performance of horizontal management systems,

⁸Reviews that make a horizontal comparison of performed functions to identify duplications and gaps in substantive policy functions

development work to experts and deals itself mainly with the 'translating' of developed concepts into draft legislation. This is a situation that is both unsatisfactory and potentially dangerous in terms of possible state capture. As in the area of the development of administrative and political coordination, the role of functional review in identifying weaknesses in policy-making systems is rather limited, as policy process reviews are rarely part of functional reviews. There may be a case for including this additional type of review, as recently conducted in Slovakia, into the 'set' of functional reviews to be conducted in order to get a comprehensive picture of the measures required to develop high quality systems of public administration in Post-Communist states.

Structural problems and the use of functional review as a reform tool

This section has outlined three over-arching problems inherited from the past system and six related sets of structural and organizational

problems in the state administrations of Post-Communist states. It also explains why conventional methods of public administration reform, through across the board cost cutting and the adoption of legislation, are in themselves insufficient to address the complex problem of building high quality administrations in the region. Functional reviews will certainly not be a panacea to all the ailments of administrations in the region. However, the conduct of a comprehensive set of functional reviews, looking at horizontal management systems, policy process, the organization of individual policy sectors and the division of labor between the sectors, could in principle make an important contribution to the definition of the necessary measures to build high quality administrations. In fact, as the discussion in this section has shown, it could help address the majority of the key problems facing public administrations in the region. The next two sections will focus on the process of defining and implementing a functional review, and set out conditions to be met for defining a successful functional review process.

Designing a Successful Functional Review

The design of a functional review is one of the most critical elements in the review process. A design that does not fit political and administrative conditions in the country where it is applied is bound to fail. Functional review processes can serve a varied set of objectives, discussed in the first section below, and what objectives are to be achieved is the first criterion for consideration when choosing both the type of review to be conducted and the management system to be put in place. A second question to be considered is what type of output is expected from the review. Obviously a review always ends with a report, but the type of measures to be proposed in the report can vary, again depending on the prevailing political climate and the issues that “drive” the review. The type of measures most likely to fit political conditions can be predicted with some certainty in most states. It is therefore important to take this into account in the design phase. This section, therefore, discusses the most important issues to be considered in designing a functional review and addresses the following issues: the type of objectives that functional reviews generally serve, the type of reviews that can be conducted, the way in which these can be managed and finally what kind of measures are likely to be pursued as a follow up.

2.1 WHAT IS THE OBJECTIVE?

The purpose of functional reviews is to assist governments in moving toward a situation wherein public administration institutions **collectively**, and **individually**, perform **all** necessary functions and **only** necessary functions, in the most efficient and effective manner. The starting point for a functional review is the assumption that public administration institutions exist to perform functions in order to achieve the objectives of the political system on behalf of society, and that only the performance of these functions justifies their existence, their structures, their activities, and their resources. Further, the functional review approach assumes a possibility of identifying alternative

methods of reaching the goals of the political system in a systematic and relatively objective, experience-based manner, and of ranking these alternatives in terms of efficiency and effectiveness.

It is clear that in most countries in the region the catalyst for functional review is almost always a need to reduce government expenditures, a need propelled both by internal and external pressures. Paradoxically, however, it can be said functional review has developed as a corrective to the various ‘quick and ready’ approaches to budget reduction, such as ‘across the board’ staff cuts and salary reductions, or the wholesale elimination of certain government activities and institutions. It is useful in this context to view functional review as a result of intellectual dialogue between economists and public administration experts leading to the recognition that ‘across the board’ cuts, while quick, produce only limited savings, can cause a serious reduction in the quality of government output and are often not sustainable over time. Rather than this, functional review focuses on systemic and institutional objectives and seeks to establish conditions for modernizing administrations to function more effectively in the longer term, even if in the shorter term financial gains are smaller than could be achieved by direct cost-cutting methods. Therefore, any functional review process always has important systemic modernization objectives in addition to a cost-reduction objective. The achievement of systemic objectives is taken as a prerequisite for achieving cost-reduction objectives. The specific systemic objectives in each country need to be carefully selected in order to realistically match to local circumstances.

In order to select the appropriate objective for any functional review process, it is useful first to understand the sequence of logical and normative assumptions that underpin this approach. The presence of normative and subjective assertions in the list of assumptions below should be particularly stressed and recognized. Functional review is not in any way a pure science, and the choice of objectives for any review is in part ideological and subjective and it is therefore important for those defining the

objectives to be aware of these subjective elements, and to be prepared to explain and defend them.

The following list presents an idea of these assumptions:

- The administrative system as a whole should be designed to achieve multiple objectives, both horizontal and sectoral with the objectives determined by legislature (the Constitution, Parliament) and at a political level (Government).
- Horizontal objectives should be pursued by all institutions. These would include transparency, accountability, efficiency, subsidiarity, service quality, ethical conduct and equality of treatment.
- The development of policy and delivery of services to persons and economic and social entities is the central objective of government. However, government is obliged to question its own role in delivering services, and it should divest itself of the delivery of services for which a “better” deliverer can be found. The definition of a “better” deliverer is subject to cost and efficiency, but also to ideological and subjective considerations, such as national interest or social cohesion.
- The administrative system is divided into sector institutions (ministries and agencies), with assigned responsibility for policy development and service delivery in specific areas, such as health, education, environment, and agriculture. The division into sectors should theoretically be such that all areas of government responsibility are assigned (no gaps), but that no area is assigned to more than one body (no duplication).
- In addition, each administrative system also contains a small number of “central institutions” such as a government secretariat, a Ministry of Finance, or a Civil Service agency. These institutions have coordinative functions rather than sector functions. The quality of performance of these coordinative functions can be assessed to international standards.
- The same rule that applies to the system as a whole applies to sub-units within each institution. Ideally, all responsibilities assigned to the institution should be reflected in functions and activities assigned to specific units in the institution (no gaps), but responsibilities should not be assigned to more than one unit (no duplication).

- In sector institutions as well as in the system as a whole, there are some units whose role is coordinative, e.g., personnel, legal, and finance departments. Standards of performance of these tasks across the entire administrative system should be comparable to a high degree.

- In all institutions, whether sector or coordinative, it should be possible to establish their service objectives by reference to law, government decisions, and other sources. Once established the roles and functions each institution carries out should derive from the objectives the institution is responsible for fulfilling. Accordingly, it is possible to determine with a high degree of certainty if any given function should or should not be performed, and whether it should be performed by the particular institution or delegated to another.

Given these assumptions, the process of functional review always begins with an attempt to clarify the roles, missions and objectives of administrative bodies under study, and to derive from these relevant functional requirements. With respect to functions of the administrative system, functional reviews have four primary objectives:

1. To eliminate redundant functions. Any function performed by the institution for which no justification can be found in its objectives is a candidate for elimination. In transition countries, many functions performed by administrative institutions are a remnant of a previous economic and administrative system. This is particularly clear in the case of economic planning and economic management, which under communism were functions of the state. It is often the case that even after privatization, the administrative system still carries out tasks that no longer fit the new economic system. The elimination of redundant functions can apply to a specific institution, and may also apply to the system as a whole: for example, where decentralization has taken place, certain functions within central institutions (e.g., certain types of service delivery in all ministries). The purpose of eliminating functions can be cost-saving, but could also be to improve internal operations of the institution, remove unnecessary burdens from the private sector, reduce the need for internal coordination, and improve transparency.

2. To reduce duplication between and within institutions. All administrative systems are a product of gradual development and all tend to develop duplications over time. Functional reviews

can be used to examine the system critically in order to identify such duplications - a different objective from eliminating redundant functions. While recognizing that the function is still needed, the objective here is to ensure that the same function is not performed more than once. For example, it is often the case that a number of institutions or units within the same institution develop policy for the same sector or group. In such situations not only is there a waste of resources but contradictory policy, inconsistent demands on the recipients of the policy and reduced accountability and transparency.

3. To add missing functions. In many cases, especially in transition countries, the administrative functions required after the move to a market economy do not exist within the administrative system. While certain functions have to be eliminated (e.g., investment planning and enterprise management), they need to be replaced by more suitable functions, such as regulation of market activity. Government ownership of banks has to be replaced with a legal and regulatory regime as does the ownership of communications by regulation of broadcasting and of content in part (e.g., anything spreading hate or racism, pornography etc.).

4. To rationalize the distribution of functions. Functions within institutions are often split between different units in ways that reduce performance efficiency and transparency. For example, two different units may deliver services to the same entities. In such cases, the purpose is to co-locate similar functions in order to improve service delivery and reduce the need for internal coordination. Alternatively, incompatible functions may be co-located within the same unit. For example, the function of establishing regulatory requirements and the function of controlling their implementation can create conflict of interests and reduce the access to redress of those regulated. Such functions should normally be separated to increase efficiency, transparency, and administrative justice. Another form of rationalization concerns the equal standards for performance of similar tasks by different institutions. For example, it is normally reasonable to expect that the personnel function in all institutions should be performed in a similar fashion. Where this is not the case, there is likely to be good reason for rationalization of this function across the administrative system.

The achievement of these four direct objectives related to functional performance within the

administrative system is not an end in itself, but is expected to contribute to higher-level government objectives. Normally, it is these higher-level objectives that form the impetus and rationale for undertaking functional reviews. At this level objectives tend to differ from country to country, depending on political objectives, external pressures, and the overall state of administrative reform. The most common higher-level objectives for conducting functional reviews include the need for cost reduction, including personnel reductions, reduction in number of ministries and agencies, changes in allocation of resources, privatization of services and improved work methods. There is also a need to clarify and rationalize the roles and structures of different types of administrative institutions by setting up standard criteria for functions belonging to ministries, agencies, and other forms of administrative institutions. Services to public and social and economic entities must be improved by reducing duplication and red-tape, raising competition among service providers and increasing transparency and accountability.

The reform process must also be kick-started by creating a basis for further reform of public administration bodies and defining optimum structure - especially important where government political commitment to reform needs to be developed. The priorities of the government also need to be reaffirmed by identifying areas where government activities are not in line with policy priorities. Decentralization and de-concentration are also vital and an analysis of functions is a useful aid in the rationalization of function distribution between central and local authorities, and central and de-concentrated units of central administration. Finally, in EU candidate states, help must be given in preparing administration for integration into the European Union by introducing administrative and work methods common among member states.

The four primary objectives with respect to functions performed by the administrative system are relevant to all functional reviews. On the other hand, the definition, selection, and approval of the higher-level objectives for any functional review process is an important phase in the design of a successful, specific approach in each country. As will be seen in the section below higher-level objectives are crucial determinants of the study design as only certain objectives can be achieved with specific approaches.

2.2 TYPES OF FUNCTIONAL REVIEW: WHAT IS MOST SUITABLE AND UNDER WHICH CONDITIONS?

There are essentially three types of functional review, which can be combined into a number of general approaches.

1. Vertical review

A vertical review focuses on the activities of one institution. The institution may be a ministry, an agency, or a central body such as the government secretariat or the presidential administration. A vertical review of a ministry may or may not include a review of subordinate agencies, and may focus only on the central ministry or include de-concentrated units. The main focus of a vertical review is the extent to which the institution performs the functions required to meet its objectives and the extent to which the organizational structure of the institution fits logically, without duplication or gaps, the requirements for the performance of those functions. At any one time, one or more vertical reviews may be conducted, but the vertical review of each institution is essentially separate from the reviews of other institutions.

2. System review

A system review focuses on a comparative review of one or more common functions across a number of institutions, and thus mainly assesses the ability of administrations to function as in integrated system. A common function is one performed by all or most institutions, such as personnel, internal administration, legislative drafting and budgeting. A system review of one or more common functions is carried out across the entire administration or one part of the administration, such as all ministries, all subordinate agencies, or all ministries in a given sector. The main focus of a system review is on the comparability in performance of common functions across different institutions. In particular, a system review seeks to determine the extent to which the status and position of a function within different institutions is comparable, e.g., is there a personnel department in some ministries but only a section within a department in others? If there is a difference in status, is it justified by differences in the size or complexity of the institutions? It also allows for examination of the equitability of staffing levels and staff quality for a given function between different institutions, and of the extent to which the same activities are performed, in a similar fashion in all

units. For example, do all personnel departments perform activities related to recruitment, or are there some institutions in which recruitment is strictly the prerogative of line managers?

A number of system reviews can be conducted concurrently, but the review of each function is essentially separated from the review of other functions. Even if there have been cases where system reviews were carried out separately, to address particular problems in, for instance, legislation drafting, system reviews are most often conducted in combination with one or more vertical reviews.

3. Horizontal review

A horizontal review focuses on the distribution of functions between institutions. The focus of such a review is primarily on objectives and competencies, seeking to establish if at the level of the administration as a whole the distribution of competences is rationalized, without undue duplications and gaps. A horizontal review can also focus on the extent to which all ministries follow the same methods in defining relations between central and deconcentrated units, or the extent to which financial and accountability relations between ministries and subordinated agencies are comparable across the system. Such horizontal reviews are particularly difficult to conduct and are relatively rare. They may be carried out not as separate reviews but as an attempt to draw systemic conclusions from a series of vertical and system reviews.

The three types of review described above can be combined, in a modular fashion, depending on the higher-level objectives, capacity and resources and political commitment. The most common packaging appears to be:

A small number of vertical reviews

This approach is particularly useful in cases where there is no real political commitment to administrative reform, and an outside body, normally an international organization, wants to create impetus for reform. It is also very helpful in addressing issues related to a particularly large or complex ministry, e.g., Ministry of Agriculture or Ministry of Economy in countries preparing for EU accession, and can be important as a pilot project to demonstrate the usefulness of the approach and to train local staff. There is also an important role for this type of approach when it comes at the request of a reform-minded head of a particular institution, e.g., some reviews carried out by SIGMA of government secretariats or institutions responsible for EU accession.

BOX 2.1

VERTICAL REVIEW

After a general horizontal review had been conducted in 1997, the second and more focused stage of functional reviews in **Latvia** was initiated in 1999 – consisting of a vertical functional review of selected ministries and subordinate systems. The Ministry of Agriculture and later the Ministry of Economy and Ministry of Justice underwent vertical reviews. The rationale behind vertical reviews was the necessity of preparation for EU accession: During the integration of sectors to the EU, ministries undertake many new tasks, resulting from implementation of the *acquis communautaire* and requiring the ministries to prioritize their tasks and subsequently allocate resources. The choice of ministry for the vertical functional review was agreed among the three parties: the Bureau of Public Administration Reform, the World Bank and the ministry concerned. The World Bank introduced as a criterion for the choice of sector for review the importance of the sector to overall economic development and EU accession. The goal of the reviews was to design the institutional framework for rational and effective implementation of public functions, through meeting following objectives:

- Formulation of mission and strategic objectives of the ministry and identification of priority functions;
- Identification of the functions of public bodies within the ministerial system to be retained, transferred to more appropriate bodies, eliminated or divested;
- Identification of new functions;
- Determination of a legally sound and cost effective organizational structure that can efficiently meet its objectives; etc. The functional review included the ministry and various bodies under direct subordination and supervision of the ministry. Although 10 ministries were involved in the functional

review program by the end of 2000, the review program that was undertaken in the **Ukrainian** government to this point remains limited in both scope and depth. It constituted merely a vertical review of selected ministries. Moreover, each review had been essentially conducted as a pilot project at central level and did not have an effect at regional or local levels even when the ministry under review had directly subordinated bodies at regional or local levels. There were a number of negative factors affecting the overall functional review process:

- A lack of adequate political support and stability: the CBEP Working Group (Working Group on Reform of Central Bodies of executive Power) was not capable of carrying out such a broad set of reviews.
- The failed attempt to carry out a parallel review of functions by the Main Department of the Civil Service, due to a restrictive and overly simplified approach to the review process (It included only reviewing normative documents and ministerial regulations).
- Vertical review processes in **Kyrgyzstan** thus far appear to have a larger chance of success than the earlier system review (*See Box 2.3*). The pilot reviews of the Ministries of Education and Culture, Health and Agriculture and Waters have passed the stage of initial recommendations and are now in the first phase of implementation. Action plans for reform have been developed for all three ministries (though at varying levels of comprehensiveness) and the approach has received a cautious welcome from the central management structures in administration (Presidential Administration, Prime Minister's Office and Ministry of Finance). One of the key questions now is how the methodological approaches used to review the three pilot ministries can be effectively adapted for the replication of the pilot schemes.

Vertical reviews of all institutions

This approach is particularly useful where the main higher-level objective is to reduce costs, and the possibility to do so exists over a longer period of time, and where there is sufficient commitment from the government, e.g., as part of a government-

approved PAR strategy, and there is acceptance by all or most ministers. This approach is also positive in assisting the planning and/or implementation of a new decentralization or de-concentration scheme and as part of the process of sectoral institution-building in the context of EU integration.

BOX 2.2

COMPREHENSIVE VERTICAL REVIEWS IN KAZAKHSTAN

State functions in **Kazakhstan** are ordinarily performed by public bodies. Ministries and state committees are principal central executive bodies in charge of the implementation of state policy in various sectors of the economy and the performance of state functions. Accordingly, functional analysis in Kazakhstan was carried out on all ministries, committees, national agencies, and local executive bodies, as well as subordinate and territorial agencies, i.e. horizontal and vertical structures of administrative bodies - in other words the entire public sector providing the following public services:

- Public services of a general nature such as financial, auditing and planning activities, law making, defense, public order and security, etc.
- Communal and social services such as education, public health, welfare, etc.
- Government services associated with economic activities (in the fields of farming, industry, construction, etc.).
- Other functions such activities related to the national debt service, to the service of any government guarantees and to the support of other levels of public bodies.

Partial combined vertical and system review

This approach is useful in situations where costs need to be watched. A full vertical and system review, covering all institutions and all common functions is rare. It is costly and time consuming, and is likely to produce so many recommendations that it would be difficult to implement. Therefore, most examples where both types of review are conducted in combination are partial in nature. However, the approach can also be important when

training local staff as a means to kick-start PAR where there may be political resistance. System reviews are also easier to conduct as their scope is limited and they usually deal with smaller units, such as personnel or finance departments. However, it should be remembered that system reviews require the co-operation of a (large) number of institutions at the same time, a task that may be difficult to achieve.

BOX 2.3

COMBINED REVIEWS: SLOVAKIA AND KYRGYZSTAN

In Slovakia a full review of the entire central government system was conducted. It was focused on central state administration, specifically ministries and other central state administration bodies along with budgetary and subsidized organizations that fall under their jurisdiction. It was not a pure vertical review as it contained key features of system analysis as well while some of the vertical reviews of the ministries were not in depth. Overall, the audit in Slovakia covered 172 institutions and 40,962 staff. Some components of the central state administration were excluded from the audit as their problems called for a specific approach, or fell outside the governmental resolution. Among them were the Office of the National Council, the Constitutional Court, Supreme Audit Office, courts, the Ministry of Defense, universities, theatres and the Slovak Academy of Sciences, etc. In **Kyrgyzstan** different types of review were carried out: horizontal review

(See box 2.4), vertical reviews and system reviews. The system review, carried out in 2000 included reviews of central structures (the Presidential Administration, Prime Minister's Office). Their statutes, legal acts and functions performed were reviewed and an assessment of their role and position in the structure of executive authorities was conducted. A review of 'common functions' was also conducted, including departments such as personnel, finance, legal services and audit was carried out for such key ministries as Ministry of Finance, Ministry of Justice, Ministry of Labor and Social Security, Ministry of Agriculture, etc. (but not for all ministries). The vertical functional review included a review of sector functions of ministry departments and dependent organizations and agencies. In addition the TACIS project provides for realization of a vertical functional review of the Kyrgyz Republic's Ministry of Agriculture and Ministry of Finance.

Full horizontal review

This approach may be based on a comprehensive set of separate organizational reviews, or on a more modest approach that examines, at the level of the entire administrative system, fundamental organizational issues. It is particularly useful where there is a strong drive for far-reaching reform coupled with a strong political commitment and a lead minister or institution. The approach also has

certain advantages, not least in that it allows the government to pursue all the higher-level objectives, and can thus lay solid foundations for significant restructuring and modernization. There are, however, some disadvantages including difficulty in carrying out such a broad review in sufficient depth with time and resource limitations while to make such reviews useful, there must exist a strong capacity to absorb and implement change.

BOX 2.4

HORIZONTAL REVIEWS IN LATVIA, BULGARIA AND KYRGYZSTAN

In Latvia the mandate received from the Cabinet and formalized in a Declaration of the Intended Action of the Cabinet of Ministers (August 7th, 1997) clearly set the requirement for functional review of the entire public administration. The objective of the full horizontal review was to review functions and structures of public administration bodies and provide recommendations to the government on rationalizing structures to eliminate overlap and duplication of functions among public administration bodies. The Bureau of Public Administration Reform, with the technical assistance from the Civil Service Administration, carried out the horizontal functional review within three months. The analytical report of the collected data and recommendations was presented at the end of the process. According to the report the horizontal review performed in Latvia in 1997 did not have a mandate to identify any new functions needed as part of the EU integration agenda but was not linked to government emerging policy issues and priorities. Following this, a second and more focused stage of functional reviews in Latvia was initiated in 1999 – vertical functional review of ministries and subordinate systems (*See Box 2.1*). In 1997 in the execution of the government program ‘Bulgaria 2001’ the first general functional review of the condition of administrative system of the **Republic of Bulgaria** was planned and implemented. The

implementation of the government program and the necessity of transformation of the governing model in all spheres of state control, both at a central level – in the system of legislative, executive, and legal powers, and at a local level – in the system of local self-government, identified a need to carry out an overall review of the condition of the administrative system. It incorporated all administrative bodies of the executive powers – at central and regional levels, the administrative bodies of legal and legislative powers and of the presidential administration. In both countries there was a need for far-reaching reform which would assess the existing state and potential of administrative systems, determine major strategic directions and scope of the process of institutional establishment of the states’ administrations, develop a universal plan for implementation of government policy with respect to administration, schedule of action, criteria for assessment of the efficacy of the process and necessary resources. Here system analysis was also used but only to conclude the findings of the full horizontal reviews. The horizontal review conducted in **Kyrgyzstan** was largely unsuccessful. The review, carried out in 1999, included analyses of the formal tasks and functions of all central ministries to eliminate duplication. However, as the review lacked an in-depth approach (as it was based mostly on formal document analysis), its impact was limited.

As this section shows, there are many possibilities to combine the three basic types of functional review – vertical, system and horizontal – into packages that may suit the conditions and objectives of each country. The most important criteria in the selection of approaches appear to be the level of political commitment and the main objective(s) of the analysis. Also important are timing and resource consideration, and the capacity of the system to implement and absorb change.

2.3 MANAGEMENT OF THE FUNCTIONAL REVIEW

There are two important elements in the management of a functional review process: the expert team(s) carrying out the review, and the management team, responsible for decisions

regarding the actual conduct of the review, including objectives, timing, process, co-ordination with reviewed institutions, and final reporting. In some cases, the expert team and management team share some of the same members, while in other cases they are completely separate. In all cases, there is also a need for high-level ministerial responsibility for the review (a single minister or a committee), and the body providing management of the review should be closely linked to this ministerial body.

The expert team: In almost all cases, expert teams conducting the reviews include both international and local experts. The most important element in any team is a combination of expertise that includes both knowledge of the approach and methodology of functional review,

and subject-matter knowledge of the institutions being reviewed. Since most teams would be too small to include knowledge of the specific subject matter of all institutions, the team should be able to draw on the resources of the institutions under review, and to receive assistance from those institutions. This can be guaranteed by agreeing with each institution to assign a person to the team, or to create a small working group within the institution to work with the team during the review. This last point should be given special emphasis as experience shows the functional review is in itself insufficient for producing high-quality analysis of diverse subject matter. To produce a good functional review of a Ministry of Finance, for example, it is crucial to have considerable knowledge of what finance ministries in other countries do, and how they are structured. The same is true for a review of personnel or legal departments. Without such knowledge the results of the review risk being too abstract, difficult to implement, and of limited use. The same is true for the combination of local and international experts. International experts may bring important comparative knowledge, and good knowledge of methodology. But without local experts, they can never hope to acquire the depth of understanding of local culture and administrative tradition that is required to produce realistic recommendations.

The steering group: There are three basic models to follow here, though each country should design its own specific model, based on a number of considerations.

1. Management by a government agency

Where there is a specialized government agency responsible for public administration reform, it is logical to entrust the responsibility to manage the review to this agency. In such a case, the expert team working on the review should be attached to this agency, either formally or informally.

The main advantages of this approach are best outlined below:

- It allows for good coordination and linkages among all activities related to PAR;
- It relies on an existing body, thus avoiding the creation of a new institution. This simplifies resource allocation to the review and speeds up logistics and start-up time;
- It can draw on the resources, expertise, and networking of the specialized agency;
- Assignment to an agency other than the responsible for PAR may risk limited objectives. For example, assignment to the Ministry of Finance risks too narrow a focus on cost-reduction;
- The agency would normally report to a minister responsible for PAR, which can give the functional review results an entry point into the decision-making system; and
- The agency can begin the preparatory work prior to the start of the review (e.g., preparation and translation of documents, circulation of information to administrative bodies, creation of working groups within institutions to be reviewed, agreement on pilot ministries), thus saving time and resources once the review team begins work.

However, there are also disadvantages to this approach, among them being the fact that in many countries there is no agency responsible for PAR issues. In some countries, although such an agency exists, its status within the administration may not be sufficient to enable it to steer a review involving other institutions. Also, if the minister responsible for the agency is not senior enough in comparison with other ministers, it may prove difficult to achieve cooperation. One other related problem is that in many countries the minister responsible for PAR has many other responsibilities, and thus may not have the time to devote to the review process.

BOX 2.5

STATE STRUCTURES: KAZAKHSTAN AND LATVIA

The actions undertaken by the **Republic of Kazakhstan**, including efforts to prepare the 1999 Budget, have been accepted as actions for public sector functional analysis. The Budget Commission was instituted in order to summarize the findings of the public sector functional analysis, to make decisions in funding from the national budget in 1999, to plan actions to reduce the public finance deficit. Therefore, new approaches have been worked out as to the implementation of budget reform providing for an amendment of the following year's budget formation principles and reform of budget procedures by way of:

1. Explicit delimitation of the budget sphere between public bodies supported by national budget expenditures and those providing services to these bodies that enable them to fulfil their public functions.
2. Delimitation of functions among central authorities themselves, and also between central and local authorities.
3. Adoption of fixed guidelines for the distribution of national taxes between national and local budgets.
4. Consolidation of all financial resources of the state into one single national budget. However, the experience of the functional review in 1998 shows an analysis of functions of public bodies is an arduous task that can only be completely fulfilled by a specialized organization. As a result, the Kazakh Government in 2000 instituted a working group among the employees of some of the public administration bodies responsible for developing a methodology for future functional review (including main principles

and approaches). **In Latvia** the main task for a newly created Bureau of Public Administration Reform under the Deputy Prime Minister (September – October 1997) was to review functions and structures of public administration bodies and provide recommendations to the government on rationalizing structures and eliminating overlap and duplication of functions among public administration bodies. The horizontal review performed in Latvia in 1997 by this institution provided the government with information on overlapping competencies and general recommendations for improving public administration on a macro level. However, this method did not provide an answer regarding the optimum allocation of functions, because it needs further in-depth vertical analysis. In consequence, more focused stages of functional review were initiated in 1999 in Latvia – vertical functional reviews of ministries and subordinate systems. The Bureau of Public Administration Reform was merged into the Secretariat of the Minister for Special Assignment of Public Administration Reform on January 1st 2000. This intermediary monitoring institution was essential in maintaining the focus of the review on set targets and ensuring methodology was observed. The involvement of experienced external and local consultant teams (for instance, in the Ministry of Agriculture the consultations of a senior civil servant from the Hungarian Ministry of Agriculture were used; in the Ministry of Economy consultations of a senior civil servant from the Finnish Ministry of Economy were followed) influenced the process and facilitated good working relationships among the parties involved.

2. Management of the review by a specially created unit

Where the decision to undertake functional reviews is taken by the government it is possible through this same decision to also create a special body (normally a temporary body) to undertake and manage the review. This has the advantage that as a body especially created for the purpose it is possible to carefully choose and appoint personnel and within this if the body is staffed by people external to the administration there is likely to be a higher degree of objectivity in the review. There are

also the advantages that if the body reports to a specially assigned senior minister (e.g., a deputy prime minister), this in itself would facilitate acceptance by the institutions under review and that a team created specially for the review is not burdened by other responsibilities, and can devote all its energies to the process.

However, there are also a number of disadvantages. For example, a new team might lack the knowledge and experience within the

administration to facilitate the review, and might even create resentment if it is perceived as an outsider to the administration. The success of the approach is also greatly dependent on the ministerial authority responsible for the new unit created for the review, since the unit would have no institutional links. The approach also carries a risk

of time loss in its initial start up phase and an inherent difficulty in obtaining resources and finding appropriate staff. Finally, if external members of the team lack practical experience in the administration they risk producing unrealistic recommendations that would be difficult to implement.

BOX 2.6

SPECIALLY CREATED UNIT OF 'EXTERNAL INTERNALS': KYRGYZSTAN AND UKRAINE

The implementation of a functional review of central public administration bodies in the **Kyrgyz Republic** was assigned to a management team – the Working Group under the National Council for public administration and service reforms, which was headed by the President of Kyrgyzstan and members of which were selected on the competitive basis by the Presidential Administration and UNDP. It included former employees of the Presidential Administration and Prime Minister's Office, as well as representatives of public organizations and mass media. This can be considered one of the major strengths of such a management team – mainly the work experience of team members in central public administration bodies as well as in NGOs, private sector and mass media, sufficient experience of working with regulatory and legal acts. This combination provided an opportunity to define the role and objectives of public administration bodies in transition more precisely. The major weaknesses of the management team were, however, an insufficient experience of analytical work and a lack of special skills in public administration and economics. In fact, the members of the management team were only for the first time addressing the issues of restructuring of public administration bodies and of applying methods of restructuring implementation. **In Ukraine** two working groups were established by Presidential Decree (July 1998) to implement plans for public administration reform at central and local levels:

Working Group on Reform of Central Bodies of Executive Power (CBEP Working Group) and the Working Group on Reform of Local Government, Self – Government and Civil Service. A small team of four people was drawn from a multi – donor project (which was supported by the World Bank, UNDP, USAID, DFID, SIDA and CIDA) to support the CBEP Working Group to conduct functional review in the ministries. It included local Ukrainian experts and one international consultant supported by a number of short-term international experts. In October 2000 the management team was increased to seven all native Ukrainians. The team's strengths lay in the varied experience of team members from both public and private sectors, its independence from the ministry under review, which helped fostered impartial recommendations. The financing from international organizations allowed the team the access to long-term and short-term international experience and expertise. However, there were major weaknesses, among them the team's subordination to the politically appointed Vice-Prime Minister and, as a result, subjection to the vagaries of the political situation in the country. Also none of the team members had long-term bureaucratic experience, insufficient training was given to the team at the beginning of the process and knowledge of modern public administration among the team was gleaned largely from books and other materials, but not from practice/training.

3. Management of the review by an outside body

This approach would normally be pursued in two cases. First, where there is as yet no real political commitment for PAR in general and the functional review in particular. In such cases, international organizations or bi-lateral funding institutions often take the initiative to push forward reform processes in the hope of gaining commitment from the government at a later point. Second, where the

government wants to keep the management of the process outside the administration and usually hires a local institution from outside government to conduct the review with the explicit support of the government. This type of management system is often applied in a situation where there is a lack of trust between the government and the administration. Again this approach has its positives and its drawbacks. The main advantages are that it can be used in cases where often there is

no other way to proceed, while external management can often call on financial resources and expertise that may not be available to the government. It also possible that the outside body may be able to augment its resources with local personnel and create certain conditions eventually contributing to increased political commitment to PAR. But in adopting this approach it must be

borne in mind that if political commitment to implementing the results does not exist, the review risks developing recommendations that have no chance of being implemented, and if the review is not steered internally by a government decision, there are likely to be difficulties in achieving necessary levels of co-operation from the institutions to be reviewed.

BOX 2.7

OUTSIDE GROUPS: BULGARIA AND SLOVAKIA

Bulgaria and Slovakia represent rather successful examples of involvement of local consultant firms in the functional review management process. **In Bulgaria** the minister for state administration took major responsibility for the management of the general functional review. The methodical and operational execution of the functional review was carried out by a project team, consisting of Bulgarian experts from a local management consultancy firm (STRATEGMA), not employed in the administration, but funded through the Phare framework. This approach provided maximum objectivity with respect to both the necessary assessment of the condition and planning of concrete measures for policy application. The project team established a continuous communication with representatives of administrative bodies and helped them methodically and technically in the preparation for their answers to the questionnaire. A major problem in review management here was lack of time in detailed development of methods and the necessity to clarify the terminology in the review. On that basis a proposition for the establishment of a permanent methodically backed system for continuous monitoring of the administrative system was prepared. This suggestion was included in the Law of Administration, which regulates the establishment of a register of the administrative bodies. **In Slovakia** a working group, responsible

for a functional review, was composed of representatives of state institutions and national and foreign experts. It cooperated with the Institute for Economic and Social Reforms (INEKO) and other donors such as the UNDP, Phare, British DFID, and OECD. It also drew on the experiences of state and public administration reform in a number of countries of Western Europe (Denmark, the Netherlands, Ireland, Sweden, Norway, and Finland). The strengths of the management team were that it utilized both foreign and domestic external expertise, making up for a deficiency of such skilled personnel in government and an ability to work dynamically, independently and without ties to any special interest group within or without public administration. The team was also creative and innovative, unifying philosophy behind the whole project, while it had a close relationship with the Deputy Prime Minister and the personal commitment of the people involved. However, it also carried with it a number of weaknesses. These included an insufficient prior knowledge of the way the Slovak government works in practice, mixed attitudes of government employees towards the team (in some cases, being an outsider was an advantage as many civil servants professed they did not believe an insider could produce major proposals for change) and a lack of permanent capacity building for such work.

2.4 FINANCIAL ASPECTS OF THE FUNCTIONAL REVIEW

Finances are obviously a key issue in designing functional reviews. Even if most governments quote 'higher objectives' when starting a functional review, cost-savings are obviously always a key consideration. In many states functional reviews are mostly seen as a more rational way to implement cost-savings. Capacity building considerations are often seen as secondary. At the same time, those

who take responsibility should make sure that especially these elements of the review are considered, since otherwise they will fail to reap the full benefits of the review process.

Several mechanisms are available to ensure that cost savings identified through functional reviews are at least in part re-invested in capacity building. As a first possible method, an agreement can be negotiated between the managing body and the organization to be reviewed prior to the review that

would stipulate a certain percentage of the savings that can be re-invested in upgrading staff capacities or organizational infrastructure. This would then become a condition for conducting the review. Obviously this kind of agreement can only be used when a full vertical review is conducted. The results of horizontal and system reviews are far less predictable, in that the recommendations of these types of review often require staff numbers and budgets to be upgraded for some institutions and reduced for others. In the case of horizontal reviews this can be the result of a re-allocation of functions if duplications are identified, while in the case of system reviews this could result from the identification of capacity imbalance in one of the common functions reviewed.

As a second possible method a resource agreement could be concluded after the review is completed between the ministry reviewed and the Ministry of Finance (and possibly other central bodies, such as the civil service agency), as an element of the implementation plan. This method is particularly useful in a review of pilot ministries, as it shows other ministries the possible advantages of undergoing a functional review in terms of added financial flexibility. Even if the use of resource agreements could be decided on later in the review process, the possibility of using this method would send a clear signal that the review process is not just a cost-cutting exercise. Resource agreements come in varying degrees of sophistication. Models of agreements as applied in the United Kingdom, Australia and New Zealand obviously hold little relevance for transition states, many of which struggle to overcome basic problems in their administrative systems. However, a basic version of a resource agreement, providing flexibility in the use of the budget allocated to the ministry to facilitate the implementation of internal reforms,

could well be a very useful element of the review process. A strong central endorsement for the use of resource agreements is obviously required for this method to work. In addition, in states where the level of trust between central agencies and line ministries is low, such agreements may need to be backed up for them to be credible. Taking into account the strong involvement of international actors in the functional review process in the region, conditionality imposed by IFIs, would be the most watertight guarantee. However, even smaller donor institutions could play a positive role in ensuring the implementation of resource agreements, especially if they can define a common approach to government.

A more long-term aspect of financial implications is the use of possible privatization revenues. With few exceptions, the privatization process in Central and Eastern Europe and the CIS has not been fully completed. Functional reviews therefore have the potential to identify possible areas where functions could be privatized. The income derived from the privatization process can be significant, depending on the privatization method applied. Including a provision in the design of the functional review that a certain percentage of privatization proceeds will be re-invested in capacity building in the civil service could provide a further potential incentive for organizations to take a positive approach to administrative restructuring. The use of a proportion of privatization proceeds for administrative capacity building has the added advantage that this is not necessarily as closely tied to the review of individual ministries as the previous two mechanisms discussed. Investment in the development of common functions and horizontal management systems can be more easily argued for when this particular method is applied.

BOX 2.8**FRAMEWORK OF INCENTIVES**

The functional review in **Latvia** treated sector ministries as ‘clients’. The management team sought to engage the ministries based on a clear understanding of what the potential benefits for their institutions. The following are some of the options considered.

- To allow the sector to retain [all or (x)%] of potential savings identified for diversion to other sector priorities.
- To receive help and advice in implementing recommendations.
- To be given greater flexibility following a successful review to shift funds between priorities across and during the year, including roll-on of budget funds saved during the year.
- To be given access to funding that might be required to realize potential savings.
- To be given favorable consideration in the allocation of development funds and the fixing of overall ceilings following a successful review.
- To be assisted in implementing appropriate on-going performance review, information and monitoring systems that encompass the entire sector including the activities of agencies and local bodies.
- To be given access to training support for conducting the review, implementing its recommendations and for developing capacity to manage emerging priorities.
- To be given favorable access to EU and donor funding in implementing review recommendations and moving towards agreed priorities.
- To receive assistance from central bodies in resolving any cross-ministerial or agency issues that are impediments to improved efficiency and effectiveness.
- Assistance in managing any redeployment that is a consequence of the review. To be given a favorable profile in announcing the review and upon completion.

It is important to spell out as early as possible in the design of the review process how cost savings will be used. In view of the budgetary problems that many of the states in the region are facing, any approach to administrative restructuring is likely to be perceived as a cost-cutting exercise by those that are the subject of the review. Building financial incentives into the design of the process can help alleviate such concerns, especially if the financial aspects of the review are spelt out in enforceable principles and if they are backed up by the external 'sponsors' of the review process.

2.5 HOW TO TAKE INTO ACCOUNT EXPECTED RESULTS

As a final point in this section, it is important to consider the likely type and structure of the implementation phase. It is obvious that every functional review should result in a well-prepared report that describes the scope of the review, the method used, the sources of information, the main funding, analysis, and recommendations. However, the review does not end with the report and recommendations and should also explain the mechanisms to be used for implementation. It is important to take into account in the design phase the type of implementation measures that may be needed to reach the defined objectives. Even if one cannot predict the outcome of a review, the

objectives set out at the start will generally point the review in a certain direction, imposing constraints as to what type of review will be designed.

The review should be set up in a way as to ensure that the report will include, at least in draft form, suggestions for an implementation plan and even an implementation mechanism. Obviously the method of implementation can be amended as the review progresses but starting without a reference point for the implementation system's eventual make-up is likely to throw the review into disarray in the middle of the process when questions about implementation are likely to be raised. Typically, an implementation plan should also list the documents to be prepared in order to implement the recommendations, such as a government resolution and a list of the laws and/or internal regulations that would need to be drafted or amended. The implementation plan should also address human resource implications and how these might be managed, and the training of staff to perform new or changed functions. The design of the functional review should thus take into account what type of implementation plan is likely to be proposed. As an example, if the likely approach chosen in the implementation plan leans toward adopting new legislation with a mainly horizontal impact, the conduct of a limited number of vertical reviews is obviously not likely to bring the necessary results.

Methods and Techniques for Functional Review

What and how information needs to be gathered and its analysis so as to make effective recommendations for organizational change are vital to carrying out a successful functional review. The discussion in this chapter will therefore be of a more technical nature, looking at the ‘nuts and bolts’ of the functional review process.

But while the basics of the functional review process are important and need to be examined, there are some prior issues which need to be discussed before that can even begin, such as the boundaries of a proposed study, the form the review will take, who will oversee the review’s progress and ultimate end, and how each task within the study will be addressed.

The boundaries of any proposed study need to first clearly be defined before anything else is addressed as it is not possible to encompass the entire public sector in one study and to attempt to do so would dissipate resources and limit the effectiveness of the study carried out. Defining the study’s boundaries has a profound effect on what data is collected, how it is collected and the form of analysis carried out. A decision must also be made at the outset as to how the review will treat government-wide objectives that affect a range of organizational units. In the same way it must also be decided whether a ‘top down’ or ‘bottom up’ review will be conducted. For example, if the work is being phased, should the review start with central ministries and agencies or at a sector level, and who will carry out that work? This last decision will be key as each approach has a distinct advantage in itself and the answer to this question will affect how individual tasks within the review process are set up and tackled.

Addressing both the vertical and horizontal issues at the start of the review prevents a deferral from the beginning of the review to its end of any potential ‘show-stoppers’ in implementing proposals. Therefore an important early task is to carry out an analysis of the key bodies involved in a Sector¹ and to sketch them into the review process. But a common experience of all the subject countries is that some issues have been found to be inherently cross-sectoral and difficult to delineate within the review process. To overcome this certain approaches can be adopted however, one of which is to examine Government strategies and priorities and to attempt to identify policy objectives of this same fundamentally cross-sectoral nature. These can then be dealt with by assigning them to a ‘lead’ Sector to ensure that they are covered in the review process.

In contrast the choice of whether to adopt a ‘top-down’ or ‘bottom-up’ approach with the review often depends on the degree of political support for the process and the willingness to force conclusions at a political level. This can lead to hard choices in which administrative bodies should be dealt with first in the review – central or local. However, if a decision is made to start with central bodies (Government Secretariat, Ministry of Finance, Civil Service Department etc.) it should be remembered that these bodies are normally the most powerful and are adept at side-lining processes that they may regard as ‘threatening’. A successful review of these institutions before reviews on others are carried out may though produce a perception of the review’s positive progress among those other institutions and can strengthen the remainder of the programme.

¹ In the rest of this chapter, the terms Sector and Ministry are used synonymously and the techniques involved may be applied to a review that tackles either.

BOX 3.1

WHERE TO START?

Different countries have taken different approaches.

Slovakia very much drove its review from a central perspective, but then stepped back to allow individual ministries to conduct the implementation of recommendations in their own sector, while centralizing the implementation of horizontal reforms. This reflected a clear political mandate for the process.

Ukraine started by piloting the review process in a number of sector ministries, but also included

Finance. It then attempted to apply the review methodology to the Government Secretariat.

Kyrgyzstan began with central agencies combined with a system review, but met resistance and afterwards reverted to sector ministries. The model developed for the analysis of the system of the Ministry of Health and the Ministry of Education and the implementation modality of the review is currently under discussion for application to other ministries.

The decision on who leads and carries out the review has important implications for modalities. Those reviews that are largely consultant driven and focused on one Ministry become the most difficult when the implementation stage is reached, while those that have established an internal team of specialists seem to make the most progress in moving on from pilot exercises to systematizing a regular review across the public sector as a whole. In all cases, leadership and ownership are key questions. Where there is strong political impetus for public sector reform,

leadership is often centralized but where this will be less clear, ownership by Sector/Ministry becomes much more critical. But regardless of which organizational approach is ultimately adopted, a key issue is the perception of incentives for those under review, the most successful reviews being those where positive incentives, which can take any number of different forms and will depend on local legislation, have been perceived. Transparency about the process itself and what will happen to those who participate is, though, essential at all stages.

BOX 3.2

MAKING THE PROCESS TRANSPARENT: SETTING UP A MEMORANDUM OF UNDERSTANDING BEFORE THE REVIEW STARTS – LATVIA

An important event at the start of the functional review process was the signing of a formal memorandum of understanding between the Ministry and Bureau of Public Administration Reform on conduct of the review and the expectations of both parties. The Ministry was asked to assign a team of officials who would help in gathering information and act as a liaison between the expert and the heads of various bodies and units. The Ministry insisted on including a clause that it was not obliged to implement the recommendations of the final report, raising the moral responsibility for the quality of analysis and recommendations and subsequently making the task of the review team more difficult.

From September-December 1997, before the functional review process was initiated in Latvia, the Cabinet charged the newly established Bureau of Public Administration Reform with the task of reviewing the functions and structures of public administration bodies and providing recommendations to the government on how to rationalize the structures so that there was no overlap and duplication of functions among

public administration bodies. The assumptions behind this task were mostly driven by government fiscal concerns.

Some initial assumptions were made. It was thought that public administration bodies were engaged in performing similar functions that were aimed at delivery of the same outputs and therefore imposed additional costs on the government; there was a lack of clarity public bodies' mandates that weakened responsibility and accountability; overlapping functions created extra costs for the government due to the need for horizontal coordination between the bodies and public administration organs were engaged in activities which in a market economy did not constitute core functions for public administration and should have been divested. This would have created savings to fund more urgent government priority tasks.

Formally, the objective of the horizontal functional review was to identify areas of public administration with overlapping functions and prepare proposals for elimination of overlap and that would be presented to Cabinet.

Reviews are conducted on a complete or partial basis, examine all functions in an organization 'vertically', address functions related to a particular policy objective, or review common functions on an across the board basis. But the methodology for each approach, for which the core techniques applicable in part or whole are outlined below, will vary. However, bearing all the above in mind it should be remembered that Functional Review should rarely be used on its own and is often best implemented as a complement to other relevant reform activity.

3.1 INFORMATION THAT SHOULD BE GATHERED

Four types of information typically called for during a functional review relate to different stages of the process: preparatory information is used as background for the review and provides a basis for benchmarking and broadening horizons; information about the Sector/Ministry that is

externally available is used to provide an objective, external view of the institution; information from those working in the sector on what they are doing or are required to do and why is key; clear information on what tasks they are actually carrying out is also needed. However, the latter two sets of information, both of which are equally instructive in forming recommendations, need to be viewed apart as they are invariably different.

1. Preparatory information

The time devoted to gathering preparatory information at the start of the review will produce a stronger end study as the information gathered at this stage is vital to both the review process itself and the initial approach to it. Reference was made in the first part of this publication to the importance of starting functional review in the context of a clear over-arching policy towards public sector reform. Information about that policy and the place of functional review within it is essential.

BOX 3.3

A POLICY FOUNDATION FOR FUNCTIONAL REVIEW

In **Bulgaria**, the development of an overarching public sector reform strategy was undertaken under the leadership of a specially appointed Minister. This strategy was published and widely disseminated.

In **Slovakia**, leadership came from a Deputy Prime Minister who provided a strong mandate for, amongst other things, the functional review to proceed. The media were actively engaged in

rallying awareness and support for what was to be done and expectations of results lifted.

In **Ukraine**, a Committee led by a former President was formed which developed a 'concept' for administrative reform encompassing functional review amongst many other aspects of public sector reform. The Concept was promulgated through Presidential Decree.

But this is not the only preparatory information that is important for the study. Comparisons with the organization of similar sectors in other countries and reports on output and performance measures and targets used in those countries is useful and can be found through reports produced on the sector in question in other states. With individual sectors any strategic plans or macro studies that have been undertaken about the sector for other purposes are a key source of preliminary information, as is a broad organizational map of the sector showing all the bodies which act within it. Information about earlier attempts at organizational reform and their results also gives a sound base of information for the review while the views of other key institutions in the public sector, such as the Ministry of Finance's opinion on the sector and how it performs, need also to be canvassed. Government policy and strategy statements that relate to the sector and a statement of sector objectives are also critical (different approaches to developing this statement will be outlined later).

Thinking as widely as possible about what is helpful is useful at this stage as this will vary from sector to sector. (See Box 5.1 – about the process of gathering information during the preparatory stage in the Ukraine).

2. Information about the external face of the Sector

Finding out what information is available about the Sector from outside sources can be highly instructive, not just as a basis for the review, but also for understanding how the Sector sees and tries to present itself. This sort of information can be obtained not just by examining all the data that is

freely available, but also by looking at information the Sector is obliged to provide as part of a contribution to wider national processes, such as the budget. The type of information that is key includes:

- Any legislation that defines the tasks that the organizations in the Sector are required to undertake. In most transitional countries it has been typical in the past for tasks undertaken by statutory bodies to be defined in legislation in some detail. In many cases, these statements still exist, even if they do not reflect current reality.
- Any strategies or working plans published by the Sector.
- An existing organizational chart for the main institutions involved showing their current structures.
- Staff establishment summaries.
- Financial allocations made under the national budgeting process.
- Where systems of program-based budgets have been introduced, the programme structures adopted in the sector under review.
- Norms and standards used in the budget process.
- Any output or performance indicators used in the Sector.
- Any annual reports on performance produced by the Sector.

In obtaining this information it is important to have positive working relationships established with some of the key central Ministries, such as Finance.

3. Internal perceptions about functions

It is important that space be allowed for managers and staff working in the Sector to express what *they* think their functions are. Otherwise there is a temptation to apply a template of expectation that will lack important things and lose the engagement of those that will be affected by the outcome. Therefore the core information sought at this stage is that which sheds light on existing functions and the performance of those functions. Experience suggests that there is a natural tendency in transitional countries to turn to the statutory list of tasks that normally exists when questions like this are posed. These lists are usually merely a mix of genuine functions and minor tasks. They also usually fail to capture the nature of the contribution being made in practice, which may actually be much more peripheral than indicated in legislation. Therefore it is useful to precede questions on existing functions with at least some briefing on the definition of function that will be used in the review. In order for this information to be of use later the definition of function should be focused as much as possible towards output and ‘customer’.

Achieving consistency is not easy. In many cases there will be a tendency for those working in the sector to define low level activities rather than functions while in other cases several functions may be bundled with what people are currently doing and they then have to be separated for the purposes of analysis. In regard to this the following have proved to be useful tests in assessing whether the functions defined by people in the sector themselves need to be refined for the purposes of analysis:

Is there a customer for the function? If there is only a customer if several functions are taken together, it may be a sign that the function is too narrowly defined and needs to be aggregated to a higher level.

Is there an output from the function? Similarly if there is no clear output. This may be a sign that the function is redundant, but it may also be the case that the output requires several activities to be fulfilled and these need to be aggregated in a single functional definition.

Is there a need for someone else to contribute to achieve either of the above? If another organizational unit is required to contribute in order to achieve a certain goal or fulfil a certain function this may again be a sign that the functional definition is too narrowly defined.

Does the function contribute to more than one objective of the sector? If it contributes to more than one objective, this may be a sign that there are

in fact two or more functions that need to be split for the purpose of analysis.

Does the function fall clearly into one category?

A classification system for functions will be described later but if a function potentially falls into more than one category this again may be a sign that there is more than one function that needs to be split.

Ideally, all the above can be clarified at the data gathering stage of the review so that the functions are consistently defined from the start.

In addition to seeking a list of functions expressed in these terms, other data are likely to be important, such as:

- The staffing resources assigned to a particular function and related grading. In practice, this is more likely to be determinable by spreading the time of total staff assigned to an area across the functions identified, rather than seeking to build an understanding from the bottom upwards. In the latter case, problems always arise with reconciliation.
- Similar information about budget allocations.
- The products from each function. At this stage, experience suggests that products will be expressed very much in intermediary terms with little concept of a ‘final’ product that is contributed to.
- Views on how the adequacy or success of such outputs might be measured. This will be a difficult question for many, but it is worth posing to see to what extent thought has been given to the actual purpose of the function.
- Views on who else contributes to facilitating performance of the function and to whom the ‘output’ is given. The purpose at this stage is to develop the basis of a ‘map’ of inter-relationships that will be useful in testing the relevance of the function later in the review process.
- Identifying the external processes that are being contributed to (such as the budget process). The more successful reviews recognize that there is a process as well as an organizational dimension to change and there is a need to understand the chain of processes that may be contributed to.

At this stage, because it reflects the views of managers and staff themselves, the quality and consistency of the information supplied will be variable but will nevertheless be valuable as the review process unfolds.

4. Information about functions actually undertaken

There are many reasons why simply asking public servants about their functions might not produce a full or accurate picture and most of them are to do with natural human responses to those same questions. Some of the concepts discussed, such as 'output', may not be understood or there may be a reluctance to acknowledge that a task defined in statute is not performed or performed only minimally. It may also be difficult to accept that there is no real use for certain 'outputs' that have traditionally been produced. Whatever the reasons, there is a need to thoroughly analyze the information obtained in order to uncover the reality of what is actually performed and produced.

There are several ways of achieving this that will be discussed a little later, but the main areas where actual practice will need to be probed include identifying clear outputs and what is done with them, defining who the ultimate 'customers' are (including internal customers) for those products and in appropriate cases identifying what value those 'customers' place on the outputs produced. This process will inevitably require a degree of probing and re-iteration in order to investigate and examine each situation fully.

3.2 METHODS FOR GATHERING INFORMATION

The amount of information involved in the functional review process is potentially enormous and in order to ensure that this information is an aid to focus rather than a distraction, it is important that it be collected within a clearly established framework. One way to achieve this is to employ a series of checklists that relate to the different sorts of information targeted.

1. Preparatory information

Experience suggests that there are a number of very useful sources of information for gathering information that will give important background for the review:

The internet

There is now a large amount of information on the net about other public administrations, some of which can be extremely useful in providing background and showing how similar organizations in other countries view themselves. The information often includes statements of objectives, strategic plans/statements,

performance indicators, annual reports and organization charts. In carrying out a search it is well worth targeting countries regarded as having relevant experience in the Sector under review.

Other functional review teams

In earlier years, much of this sort of work was carried out on an ad hoc basis, but increasingly there are teams of people in other countries who have the remit to carry out functional review work across the entire public sector and/or on a programmed basis. It is well worth establishing contact with these teams and investigating if they have done something in the target sector. They may have a growing indigenous expertise and this can be very helpful in obtaining a practical view about what does and doesn't work in similar environments. For instance, statements of objectives for individual sectors produced by these teams can be invaluable for benchmarking purposes and can be used to challenge the status quo and ensure that the development of such statements take a fundamental look at what the sector needs to do.

International institutions

Institutions such as the World Bank, Asian Development Bank and the OECD have often undertaken or sponsored work in individual sectors that touches upon functional review. In the case of the World Bank this might include Public Expenditure Reviews for individual countries that would often include sector-based reviews for key sectors. The World Bank may also have agreed strategic statements with the sector as part of preparations for lending activities. The OECD also has some very useful comparative information on a wide variety of organizational issues including structure and performance indicators. This can be accessed on the Net. (*See Box 2.7*).

Donors

It is often the case that other donors have previously sponsored organizational review work similar to functional review. Apart from UNDP, the World Bank, TACIS/Phare and DFID in particular have done work in this area and it may be worth investigating what is available. (*See Box 2.7*).

Schools/Institutes of Public Administration

These organizations, both in-country and in other countries, are often in the best positions to know what has been done in terms of an

organizational review and to be a general source of relevant information. They are also often more organized in recording and storing documents and therefore an excellent source of information.

The client sector

The client themselves will also have many past documents, including consultancy reports, that may be relevant. However, experience suggests that it is often quite difficult to locate someone who has a large enough institutional database and overview to know what might be available. This fragmentation, after all, is a typical target for functional review.

2. Internal perceptions about functions

A big challenge is to try and express as much of the relevant information as possible in a single request rather than to make the requests piecemeal as one document leads to another. Again, a checklist prepared at the start of the review can be a useful means of conveying what is sought in a structured and coherent manner.

Central Ministries

A very useful source of information for identifying functions is the budgetary process. Obtaining a copy of annual estimates may still be a little sensitive in some countries, but can usually be handled with a bit of goodwill. This can be particularly helpful if the country has made moves towards some form of programme based budgeting. The definition of programmes reflected in the programme structures of each sector can be a powerful pointer towards the functions undertaken. It will often be the case, however, that the programmes defined are a reflection of the existing organizational structure rather than vice versa, limiting the part they can play in 'challenging' the status quo. The Cabinet Secretariat, or equivalent, can also be a source of helpful information. It will often have a central repository of the formal mandates of each public sector organization and relevant legislation, while also providing a view of the performance of the organizations under review.

The client sector

In the end however, the client sector itself will be the source of most of the information required. An invaluable agreement at the inception of the review

is on someone within the sector who will be mandated to collect information and material on behalf of the review team. A checklist idea is important here as it is possible to quickly alienate people in the sector by repeated and unstructured requests for information. This should be avoided if at all possible. Information about functions actually undertaken

3. Information about functions actually undertaken

This is the most intrusive and difficult part of the process in terms of accessing information for the review, demanding a careful balance of rigor, challenge and attention combined with judgement about what is being said. There are a number of techniques used in different studies and in practice it has been normal to deploy several of these in combination.

Desk work

Some functional reviews have been heavily desk-work based in that they rely considerably on analysis and interpretation of available documentation, but on its own this technique is unlikely to produce satisfactory results. Reliance, for example, on the list of functions included in formal mandates will have serious drawbacks. In transitional countries with a legacy of organizations mandated in this formal and detailed way, functional lists are usually a mixture of the important and the trivial, the general and the specific, the actual and the theoretical, the funded and the unfunded etc. In many cases the activities defined will relate to small elements of overall processes that get lost in detailed specification. They can rarely be relied upon to give a realistic basis for defining what is being done in practice.

Workshop

Information might be gathered through one or more workshop events in which a number of people are drawn together. The advantage in this method is that it allows for interaction and iteration and careful selection of workshop members can also help to develop an understanding of crosscutting functions. However, the workshop environment may be counter-cultural in some countries and the understanding gained may ultimately be distorted by a reluctance to openness and deference to the authority of some of the participants.

BOX 3.4

USING WORKSHOPS: BULGARIA, SLOVAKIA AND KYRGYZSTAN

Bulgaria, Slovakia and Kyrgyzstan have used workshops at various stages of the process of reform.

In **Bulgaria** a retreat bringing together key ministers and their advisers, national experts and foreign donors was organized during the initial phase of the data gathering process to present initial findings and assess the direction in which the review process (and subsequent implementation measures) should move forward. The retreat came at a crucial time in the process and was extremely important to set out the next phases of the process. The informal nature of the meeting also served as a means to initiate an open discussion of the pros and cons of different options the government was interested in taking.

In **Slovakia** a workshop was used to present the results of pilot reviews to a cross section of ministries, both to prepare them for the follow up

process and the effect it would have on their institutions, and to reflect on the methodology and the results it had brought. The workshop was useful in raising awareness of the process, but did little to change the adopted approach to the review.

In **Kyrgyzstan**, workshops were used to increase levels of support for the review process, with mixed results. The preparation for the first workshop was not managed adequately and the open presentation of the review results on the President's Administration and Prime Minister's office drew a strong negative response, almost finishing the entire process. However, a later workshop, used to present the reviews and recommendations regarding two pilot line ministries was much more effective as a consensus building exercise between central authorities and the two ministries reviewed, also raising additional donor support.

Survey

It is possible to try and derive the information required by issuing a questionnaire to appropriate staff. But the key issues then are how to ensure that a response is received at all and how to deal with incomplete returns or returns where the question has been clearly misunderstood.

Structured interview

This might involve 'walking around' the sort of highly structured questionnaire discussed above and working alongside interviewees while they complete them. This approach has the advantage of ensuring that returns are completed and gives the opportunity to clarify any points that might otherwise be misunderstood. While it is an intensive process and potentially very time consuming, it does focus in on the specific questions contained in the questionnaire. Where more complicated data are sought, such as the allocation of time spent on each function, the interview approach can be very helpful in leading the interviewee through a process by which those allocations are derived. At the same time, it will help to introduce a degree of consistency in interpretation of what is required to answer each question fully.

Semi-structured interview

The structured interview approach will fail to explore issues that surface unexpectedly or which point to inconsistencies that must be further explored if a full understanding of what is actually being done is to be reached. It may also make it difficult to connect the work of individuals contributing to a cross-cutting function.

A less structured approach can help to address this as in adopting this approach certain fixed questions can be asked during the interview while others that are more open-ended in nature and leave the interviewee to express opinions can also be put forward. The freedom to express and explore the answers given by digging deeper into the response can be a powerful tool in understanding what is really happening. On the other hand, to be effective, sufficient time must be allocated to the interview process and it becomes much more difficult to programme the work, because the amount of time required may vary from case to case and be difficult to predict.

Free interview

A more extreme option is to simply ask each interviewee to express themselves openly about

what they do and why they do it. But the results of this sort of approach have usually been rather disappointing as cultural environments are often set against people expressing themselves openly and honestly in this sort of situation.

Combined approaches

In practice, a combination of these different approaches is likely to be best. The exact combination will be a trade off between the time and resources required to undertake the review work and the importance of discovering what is actually occurring. It is important that the review process does not become bogged down in data collection and a certain acceptance of 'rough edges' and lack of complete clarity is also inevitable.

In regard to this combined approach the evidence so far suggests that a combination of semi-structured interviews combined with workshops to discuss the results in homogenous 'groups' of similar and connected areas has appeared to produce better results. This does, however, have implications for the resources required to undertake the information gathering process and the length of time required to carry out the review. If circumstances make it necessary to limit the amount of time and resources put in to the interviewing process one approach is to simply survey those areas of the organization where the position is reasonably clear or straightforward and use interview based techniques in areas that are particularly sensitive or where a greater degree of 'digging' is likely to be required to achieve clarity.

BOX 3.5

UKRAINE: OBTAINING INFORMATION ABOUT FUNCTIONS PERFORMED BY CIVIL SERVANTS

During the implementation phase of the functional review programme the Management Team interviewed the heads of structural units in respective ministries to collect the following preliminary information:

- determination of their point of view on the main objectives of the sector identified during the first meeting of the Sectoral Working Group (SWG);
- identification of all functions performed by each structural unit and their nature;
- determination of the subordinate structure and staffing of the unit.

The majority of those interviewed were members of the SWG and were therefore aware of the main objectives and principles of the functional review process. The interview process averaged up to 2 hours per interviewee.

As a result of the interview process the Management team facilitated the preparation of lists of objectives and functions of the respective ministries. During a follow up meeting with the SWG the Management Team undertook a discussion of the sector objectives and functions that had been summarized after the interviews. Because of the large number of participants, it was difficult to reach consensus concerning the list of functions during such meetings, but usually a protocol of the agreed objectives was established. The list of functions was finalized during the second round of interviews with the same focus groups.

After the list of the functions was identified and agreed upon, two different questionnaires were distributed to the same focus groups that had participated in the prior interview process. The questions were designed to identify data relating to each function performed, including the category of function, outputs, customers using the service, budget and staff required to perform this function. Also, questions concerning further transformation of functions were addressed during this stage. Questionnaires were distributed and collected by the contact person identified in each SWG. On average it took 2 to 2.5 months to collect all the required information. During this period, interaction between the Management Team and the focus groups was completed by telephone and through individual meetings. The Management Team provided additional expla-

nations and answered follow up questions by telephone or during separate short meetings.

In autumn 2000, the Management Team altered its approach to the process due to the poor quality of information that was being obtained in the questionnaires from the focus groups. It was decided to interview each head of department using the previously determined questions. Further, discussion with the focus groups was expanded to include not only the list of functions, but also to include questions related to basic data in connection with each function. This process also halved the time necessary to gather this information.

After collecting all the necessary information, the Management Team was involved in analyzing the data to refine the list of ministry functions. On this basis, it was possible to draw conclusions concerning the necessity of each given function. When the list of new functions has been identified, the Management Team worked with the SWG to prepare a draft new organizational structure of the ministry and in the assessment of staffing requirements.

In general, structural changes in a bureaucratic organization meet with resistance from within and Ukrainian ministries and their subordinated structures evidenced such resistance. To attempt to overcome this and speed up the implementation of the proposed recommendations, the Management Team used the following approach:

- introducing the aim of the functional review, methodology of work and the expected results to the employees of each ministry as early as possible to build an understanding among staff;
- taking into account the complexity of the process, to propose the transitional structure as an intermediate stage between the present and the future structure of the ministry;
- incorporating training into the implementation programme to reduce the competencies gap among employees of each ministry; and
- procuring technical assistance from donors aimed at supporting the implementation of recommended changes in the ministry and the sector (if possible).

The use of workshops is particularly helpful at certain stages in the review process. For example, obtaining a view of the objectives of the Ministry/Sector benefits from a discursive approach and scope for considerable iteration. The role of the review team here is to facilitate that debate and to provide exposure to different views and benchmarks drawn from other countries and organizations. In relation to this the workshop

approach allows room for answers given by one organizational unit to be compared with those of another. For example, if one organizational unit indicates that a 'product' is supplied to another organizational unit for further processing it is useful to see what, if anything, that other unit does with the 'product'. However, attention is needed to the sequence in which interviews are conducted to make this self-checking activity work.

BOX 3.6

CHALLENGING TO FIND OUT WHAT IS ACTUALLY BEING DONE

In **Ukraine** attempts have been made to track key outputs through the system. In the case of the Ministry of Culture it was discovered that one of the Divisions was charged with issuing advice concerning safety at cultural events. When other responsible Divisions and promoters of such events were questioned about what they were

doing with this advice they said they were unaware of it. It transpired that the booklets were being issued through a former State Enterprise that was not making the availability of such advice generally known and was seeking to sell the booklets at unrealistic prices.

Form of questionnaires and interviews

It has been found to be important that any of the survey/interview options discussed above are supported by a template for completion as the data gathering process proceeds. This will help to ensure that the data gathered are consistent, there is a clear record maintained for subsequent analysis and there is a basis for seeking confirmation that the answers and data obtained are accurate. One way to ensure this accuracy is to return the completed template back to the interviewee and ask for a signature. This is usually enough to concentrate minds and quickly lead to a correction of any misunderstandings.

To assist in this it is helpful if as much of the questionnaire as possible is reduced to tick-boxes, leaving space for text completion where open-ended questions are involved. And with careful design it is also possible to build cross-checking devices into the questionnaire. For example, by asking about functions in one part of the questionnaire and outputs in another it is possible to cross-refer for miss-match and then seek further clarification. The interview process or questionnaire completion process also needs to reflect upon the many demands being made on the time of the interviewee. In general, it is both possible and effective to carry out interviews within an hour.

But one should also be aware of some of the other pitfalls of questionnaires. Their use may be alien to the people being surveyed/ interviewed and

may also be counter-cultural, while there may also be a reluctance to give information for fear of higher-level criticism. The sting needs to be drawn out of this situation if frank responses are to be gained and to do so there are a number of techniques which can be employed, such as clearing the format of the questionnaire with senior management before beginning, giving an opportunity for interviewees to review the written record of the discussions and to challenge what has been recorded, and to keep the completed templates confidential to the review team and only quote from them in order to draw general conclusions. The terms in which confidences will be respected need to be clear from the start of the review process as well.

Examples of questionnaires used in several countries are shown in the *Appendix 2*.

Who should be interviewed/surveyed?

It is clearly not possible to gather data from all employees in the sector. In most cases it has been found to be enough to base the data gathering operations at the level of the Head of Department. Even this may be fairly onerous given that organizations with a Soviet legacy tend to be highly compartmentalized into a large number of relatively small departments. But this is not the case in all circumstances. In particularly sensitive areas it may be appropriate to lower the information gathering to section level within departments. As well as deepening the information gathered this can help to

provide a reality ‘cross-check’ by providing a means of comparing data obtained at different levels. A functional review is more effective when it is applied to a whole sector rather than a single institution, such as solely a Ministry, within that sector. Who is interviewed in other bodies such as State Committees, agencies and local bodies within that sector will depend on the size and range of functions of the organizations. For smaller organizations it may be enough to approach the equivalent of the Chief Executive. In larger organizations it may be more appropriate to again go down to Department level. In either case, though, questionnaires should be consistent at all levels.

Who should conduct the data gathering?

When answering this question a range of approaches can be adopted, all of which may be combined in different situations to produce the best results. The following approaches may be tried out:

- To carry out the work with internal people within the organization under review. Those people would need to be given some initial training.
- To use a central team to undertake the data gathering in all organizations to be reviewed. This team might be part of the Public Sector Reform team if there is one or maybe based in the Ministry of Finance. This team will have received initial training and will, of course, gain experience of the techniques involved as they move from one review to another.
- To recruit a team of locally based consultants.
- To primarily use locally based consultants, but to provide some help and guidance from international consultants experienced in this field.

It has been found to be unlikely that the Ministry/Sector will be able to free up the people necessary to make the first approach work. In light of this the second approach perhaps offers the best longer-term solution given that functional review should not be a one off exercise, but something that needs to be regularly repeated so that it contributes to a process of organizational evolution rather than unrealistic revolution.

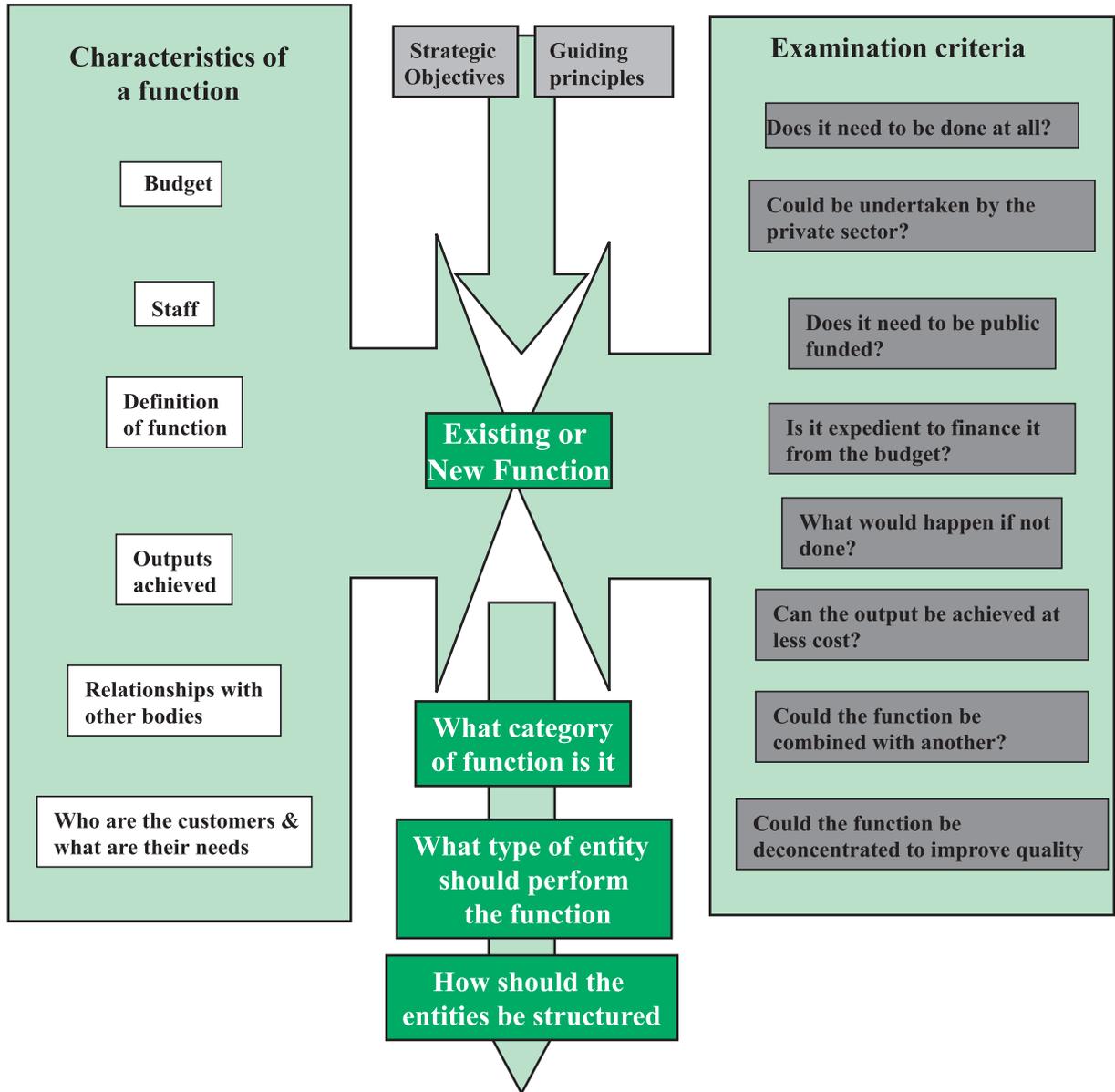
If resources and/or donor support is available the third and fourth types of approach might be used to supplement an internal core team – both strengthening the access of the team to broader experience and to talent that might not otherwise be available within the public sector. It may also help to introduce an element of objectivity into the review process that would be difficult to otherwise achieve using people already within the public sector and steeped in its traditions and concepts. These last two approaches may also be used to kick-start a review, but it is important that steps are taken quickly towards the first or second options if long-term sustainability is to be ensured.

3.3 ANALYTICAL TECHNIQUES

Functional Review is by no means a science and there remains a clear role for judgement in the entire process. There are, however, a number of techniques and processes that have been found to be useful, some of which are outlined below. Apart from providing a framework for undertaking a review, establishing an agreed methodology is helpful in letting the target sector know what is going to happen so that there are no surprises.

An example of overall analytical methodology is given in *Figure 3.1*.

FIGURE 3.1
A METHODOLOGICAL FRAMEWORK



1. Establishing some benchmarks

A tendency to slide back towards the status quo or to settle for limited incremental changes is a constant tension during the Functional Review process and unfortunately a combination of human nature and the natural conservatism of bureaucrats tends to pull in that direction throughout the process. One way to counter that is to use the

preparatory data collected as recommended above to establish some clear vision of how others have tackled the sector under review. Examples of alternative strategies and the practical results they have had will help to keep the process focused on the objectives of the review and establish a challenge to any tendency to focus on minutia or to 'tinker' at the margins.

BOX 3.7

BENCHMARKS: SLOVAKIA

Before it was possible to obtain information in the form of an interview during the 'audit' data had to be collected concerning structure (organization charts, rules) and preliminary indicative information on outputs (status analysis, answers to two questions). In the second phase, especially during the interviews, information regarding the structure of outputs was collected simultaneously with information on human resources, data on information management systems and information about the relationship between the budget and organizational structures.

Due to the practical impossibility of analyzing individual employees' responsibilities, the scope for restructuring central authorities of state administration was analyzed using a method based on accessible domestic and international quantitative and qualitative information. The

method was based on a comparison with the efficiency of organizational structure and possibilities for restructuring and increased efficiency analyzed using **benchmarking** and **'best practice'** methods. This comparison was used on the following three levels according to suitability:

- comparison of individual state administration authorities;
- comparison with foreign authorities (small developed countries);
- comparison with the private sector (if comparable, for example human resources).

Also, a study tour to Denmark, Netherlands and the United Kingdom was undertaken to examine the experiences of those countries of Western Europe that successfully undertook major public administration reforms of a similar kind.

2. Defining objectives

Establishing a vision of the role and objectives of the sector well before the detailed functional analysis has begun is another tool that will help the review. If the two get mixed together there is a real danger that perceptions of where the functional analysis might lead will condition the definition of role and objectives. Those who most see change will 'see it coming' and getting the sector to agree on what it ought to be doing rather than what it is actually doing at present is a vital part of the review process. This must represent a real challenge to the status quo for the review process to work successfully.

Criteria along the following lines have been used in several other countries where review processes have been carried out for testing the definition of objectives to ensure that they are going to be useful in the review process:

Concrete

The objective must be clear and specific. Vague generalizations or statements of general hope should be avoided and the nature of what will be achieved should be made clear from the formulation of the objective.

Action Related

The objective should be clearly related to action and the nature of that action should also be clear.

Measurable

In general, there is little point in having an objective that cannot be expressed in measurable terms. This implies two related requirements: Firstly, that whatever is targeted can be quantified and secondly that there is a source of data to support the measurement of performance.

Time Related

To be of value, the objective must be specific as to when the targeted level of performance will be achieved. In many cases it will be appropriate to distinguish between short-term performance and longer-term goals.

Realistic

The objective should be realistically achievable. If it is not it will fail as an encouragement of performance because it will be clear that failure is

guaranteed from the start. It should encourage a sense of 'stretch' and the idea that reaching out towards a better performance that is realistically within reach. An important consideration is also that the objective should be realistically affordable since objectives based on unfounded mandates are generally worthless.

Balanced

The overall development of improved services for the public usually requires several aspects of performance to work together in a supportive way and each objective needs to reflect an appropriate balance with others. For example, there is often a tension between objectives that relate to the quality of a service and those that relate to efficiency of expenditure - the former often may pull in one way and the latter in another. This tension needs to be resolved.

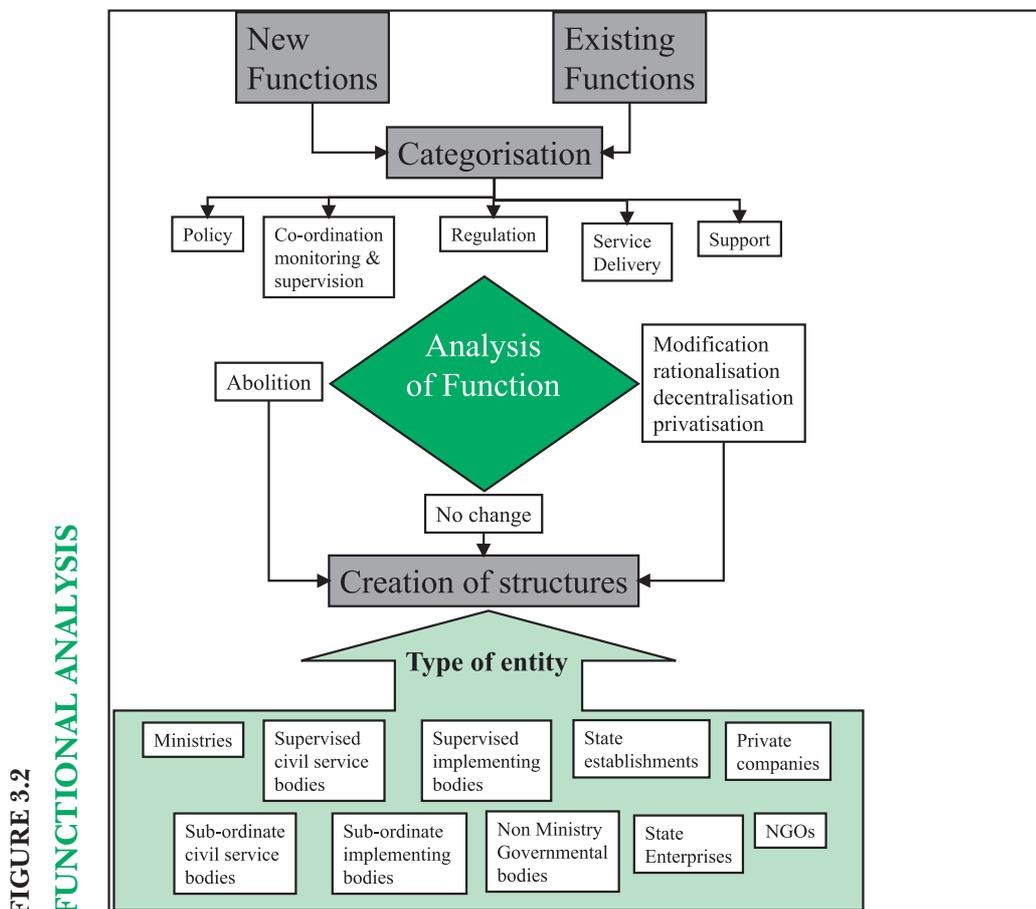
As suggested earlier, the definition of role and objectives is a suitable target for a workshop and given the role that it will play in the overall review process, establishing widespread 'buy-in' to this definition is crucial. The discussion and iteration that can be facilitated through a workshop is

important in this respect. (Read about the setting of objectives in Kazakhstan, Box 4.5).

3. Functional analysis

Based on the information and data collected during the earlier phases of the review it is necessary to begin with a consolidated list of functions actually performed as this is likely to involve more than simply listing the functions identified during the survey/interview process. Some grouping together and redefinition is likely to be needed to produce a homogenous set of functions consistently defined and formulated, but applying a template to individual functions identified to test them for consistency and integrity is a useful approach in this case. An example of this template was given earlier.

It is also important that any consolidation or reformulation of functional definition that arises from this process is agreed to with the organizational units concerned. Where interview techniques are employed it may be possible to ensure consistency at the point of data gathering. The final set of functions arrived at is then available to feed into a process of classification and categorization that will be the basis of analysis.



4. Functional classification

The classification of each function identified in terms of its inherent nature and purpose is important prior to functional analysis as this helps

ensure that the subsequent analysis focuses on why the function is being performed. The following illustration shows a form of classification that has been found to be useful:

BOX 3.8

CLASSIFICATION OF FUNCTIONS

A system for classifying functions based on their inherent nature is a useful way of laying the foundation for subsequent analytical work; a classification system used in **Latvia**, outlined below, provides us with a good example of this:

- **policy functions:** such as strategic planning, legal drafting, development of performance contracts, minimum standards, norms, policy analysis and evaluation, forecasting. These are functions requiring specialist skills and are usually provided by the core ministry;
- **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 normally performed by subordinate or supervised bodies;

- **regulatory functions:** such as licensing, certification, permissions, accreditation, inspection, compliance, and financial audit. It is good practice to separate regulatory functions from those policy functions that determine the regulations, and service delivery functions that provide services to customers;
- **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;
- **support functions:** such as financial management, human resources management, information systems, infrastructure, staff training, efficiency review and management audit; and secretarial services.

In some cases it will be found that a function that has been identified could be classified under more than one of these categories. This may be a sign that there are, in fact, two functions here that should be dealt with separately in later stages of analysis.

5. Future treatment of functions

By this stage, the review process should have led to a list of functions actually being performed, definitions of those functions, inputs and outputs and related information about the scale of performance. Having established this platform the heart of the analysis can now take place and other issues can now be turned to, such as what forms the core of the analysis.

At its center is a need to align the objectives defined at the beginning of the review process and the functions performed, and on a first run through it is likely that functions could be assigned into a number of broad categories. These would likely include those appropriate to the objectives of the sector at the level of intensity actually performed, those appropriate to the objectives of the sector but at higher and lower levels of required intensity.

Other categories which may be established would be for initiatives with a dubious relevance to the objectives of the sector and which should be reviewed for consideration of their redundancy, as well as those with an apparent overlap with other functions and which should as well be reviewed for consideration of their either redundancy or merger. In addition to this any missing functions, additional functions that are required to achieve the objectives set, must be considered. In so doing it is possible to identify another final category - Additional functions required to achieve sector objectives.

A further, more detailed analysis can now be undertaken with a view to identifying how the function should be treated in the future. In a number of countries decision tree style analysis has been adopted as a basis for following the complex range of options that may be available. Then at the end of this decision making process there should be a list of both currently performed functions and those functions further required to achieve the agreed sector objectives while for each function relevance to agreed objectives, the required level of intensity of performance and suggested basis for

fulfilling each function that appears to have continuing relevance should have been identified. (See the example of a new distribution of functions in Ukraine, Box 4.1).

The process will also point to decisions about how each function should then be treated, with a number of possible suggestions, such as:

- abolished because it is not needed to protect public interests, or there is no demand for it from the public,
- transferred to other ministries or reduced in quality of volume because it is not a priority function relative to the goals of the organization.
- rationalized with other similar types of function to realize economies of scale;
- decentralized to lower levels of government;
- privatized into fully private companies;

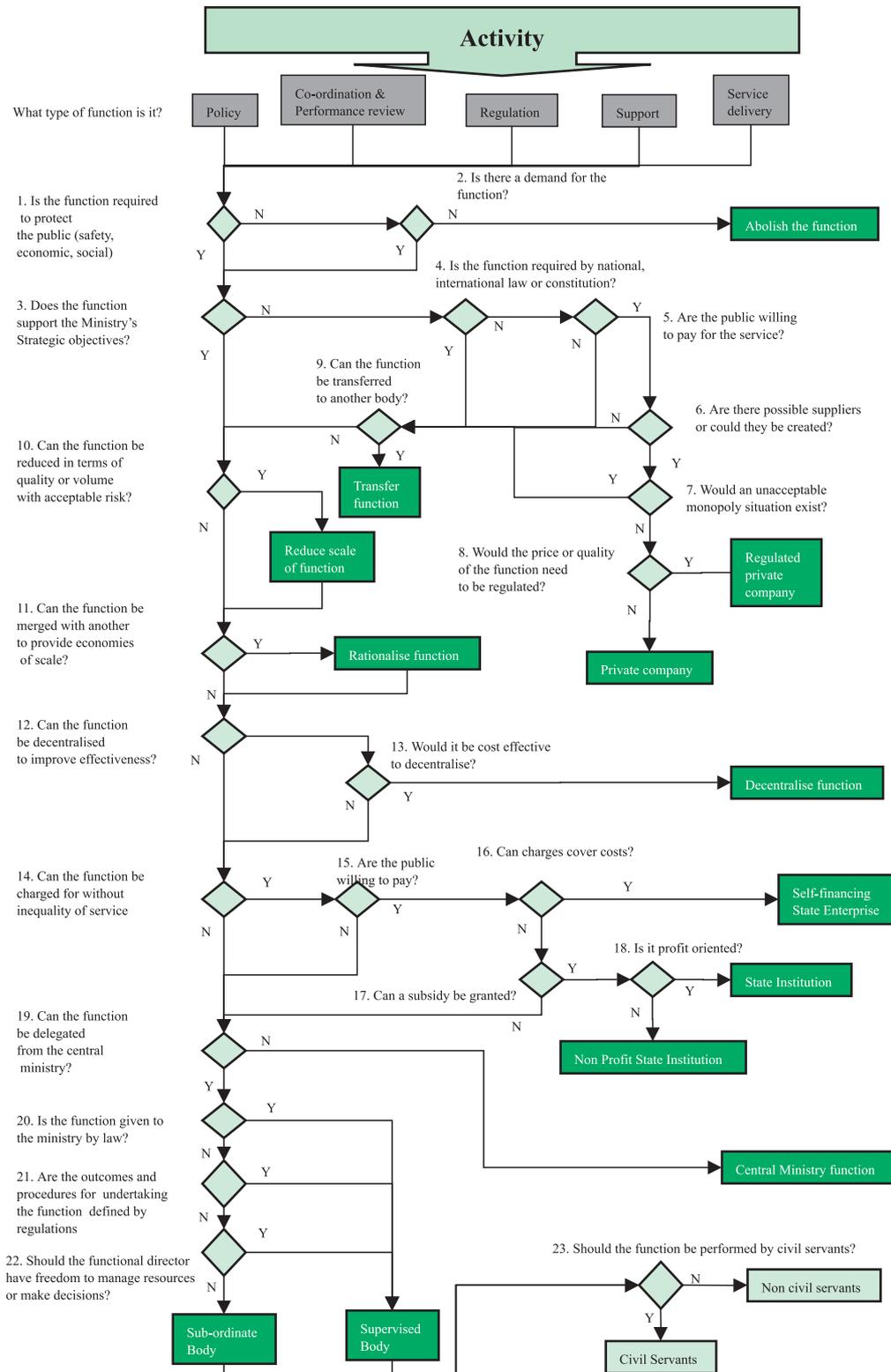
- privatized into government regulated companies and utilities;
- incorporated into self financing state enterprises;
- performed by government subsidized profit oriented state institutions;
- performed by government subsidized non profit oriented state institutions;
- undertaken by the core ministry;
- delegated to sub-ordinate bodies;
- delegated to supervised bodies.

It may also be appropriate now to prioritize proposed changes as a basis for subsequent impact evaluation and the matching of proposals to available funds.

The following is an example of decision tree analysis drawn from the functional reviews carried out in **Latvia**.

FIGURE 3.3

DECISION MAKING CRITERIA FOR TREATMENT OF FUNCTIONS



6. Output tracking

Output tracking is an important technique whereby the output from each function is tracked through to its end use, either as the delivery of a service to the end customer or as an input into another function performed by an internal 'customer', giving a clear view of what is happening 'for real'. Any inability to track in this way should lead back into the functional analysis stage for a review of proposed treatment of the function.

7. Developing organizational structures

As a result of the previous stage the review should have led to a consolidated set of functions and definitions of those functions and a clear view of how they are to be treated. At this stage this has to be expressed in terms of the type of organization that will carry them out.

There are certain criteria here that experience shows to be useful:

Objective facing: As far as possible, the upper structure of the organization being reviewed should as closely as possible reflect the structure of agreed overall objectives.

Building synergies: The functions grouped together into organizational blocks should complement each other. As far as possible they should support each other in delivering overall objectives.

Customer focus: The organizational blocks developed from functions should each have a clear 'customer' for what they do. This customer may be internal (such as the recipient of advice in another sector) or external (the public).

Reduce the need for multiple handling of material and issues: As far as possible the grouping of functions for organizational purposes should empower those working within that grouping to carry out the job and deliver what is required without having to seek clearances elsewhere. This will also require an avoidance of overlaps.

Eliminate conflicts of interest: Where potential conflicts arise these should be dealt with by appropriate separation of duties. For example, it would be appropriate to separate functions for delivery of service from those that regulate or review the standards of service provision.

However, beyond these, other guidelines should be followed to make the process smoother and more successful and along with the above can be applied as a guide to how functions might be

grouped together to form a new organizational structure. In practice, it is unlikely to be possible to do this in a purely mechanical fashion, particularly if the review is strong on the need for participation, and it will be impossible to insulate the review from personal and political interests and pressures. However, some of this will be inevitable and in some cases may even be appropriate.

The extra guidelines are that:

- functions should be decentralized except when not in the public interest;
- there should be clear and short reporting lines;
- there should be viable sizes of divisions and departments (five or more experts to a division), three to five divisions in a department;
- policy functions should be undertaken by the ministry, unless they can be delegated;
- service delivery functions should be performed by subsidiary bodies;
- different organizational units should perform different types of functions (policy, regulation etc);
- structures should take into account local history, culture and circumstances;
- there should be optimum spans of command for managers;
- there should be equitable workloads;
- where appropriate, structures should be compatible with EU and other international law.

The form of review output at this stage will depend on what might be most helpful in local circumstances. Typically, it might be in the form of one or more organizational charts lowered to Department level, but rarely any lower than that since the principle of functional distribution across the proposed Departmental structure will be clear. Exceptionally, if there are particular issues that need to be illustrated a decision may be taken to go down to Section level within Departments.

8. Reporting and implementation

This phase is among the most important in that the writing up and reporting of conclusions from the review will reflect the way that the review was established initially. In some countries the approach has been centrally directive with the sector under review being largely passive while in others it has

been based very much on sector leadership of the review where the sector has been assisted as the 'client'. In this later case in particular, it is likely that final reporting will require a degree of iteration and compromise if the objective is to bring everybody on board with something that they can support.

Typically the structure of a final report would introduce and describe its approach and methodology. A background analysis and look at past trends with a review of sector role and objectives would then follow while there would also be a review of existing/current functions and advice and recommendations for future functions. The report would also be expected to include arrangements for the implementation and assessment of the likely impact of, any proposed measures as well as transitional arrangements and further work proposed. However, in addressing the implementation measures they must be set out in as specific terms as possible. Given the legal heritage of most transitional countries an important element

of any transitional measures is likely to be required changes in legislation. Identifying who is going to take implementation forward and what resources are necessary is vital at this stage.

Also the scale of the changes proposed may be extensive and daunting for those working within the sector and there is a real risk of catharsis if implementation produces a reaction against change. There may also be a fear of instability during the process of change and it may be better to break the change implementation process into a number of stages which can be more safely implemented, leading naturally to subsequent changes and allowing scope for refinement of those same stages with experience. However, this would require the production of several organizational charts outlining the proposed evolutionary route and under these circumstances it becomes particularly important that an emphasis is placed on the proposed final solution as the target lest the interim steps become objectives in themselves.

BOX 3.9

PHASING IMPLEMENTATION

In reviewing the Ministry of Labor and Social Policy in **Ukraine** recommendations were made as to the future wages policy that had hitherto been a function of this Ministry. But these functions overlapped with those of the Main Department of the Civil Service that had not yet been subject to

review. Consequently, the review report contained recommendations about a longer-term solution to this issue but retained the function in the revised organization as an interim measure. In the developed organization chart the function was clearly identified for subsequent follow-up.

However, if this sort of phasing is contemplated it implies a considerable period of time over which change must be spread and the formation of an implementation team becomes of paramount importance to ensuring that momentum for change is sustained. The impact of the proposed changes should therefore be assessed including the impact on service levels provided and the resources required, both initially and on an on-going basis to make the proposed changes happen. If, as would be expected, there is a 'hard' budget constraint it will be necessary to apply the prioritization of proposed changes developed during the functional analysis

in a decision on which sub-set of the proposals should be implemented in the shorter term.

It is neither possible nor appropriate that functional review is isolated from other aspects of sector management and service delivery. The review can and should be used to identify as many of these complementary considerations as possible and in particular attention should be paid to the important connections between institutional review and process change. The review should be used to identify business processes that need to be reviewed as a consequence of the proposed institutional changes.

BOX 3.10

USING OTHER PROCESSES IN IMPLEMENTATION

In **Kazakhstan** the budget process has been used as a key driver for implementation of functional review proposals. Once individual functions have passed through the functional review process and have been confirmed for retention they receive a budgetary 'passport'. The

intention is that in future, budgets will be attached to functions rather than just institutions. Amongst other things, this will make it easier to repeat the review in future and to hold budget holders accountable for performance.

The distribution of review reports is also a sensitive but important issue and how this is dealt with will depend partly on how the review was set up and mandated initially. If it is highly participant dependant and 'owned' by the Sector/Ministry under review it would be inappropriate to distribute it to an audience beyond that which the Sector/

Ministry feels comfortable with. However, letting the Ministry of Finance, for example, have a copy can bring the budgetary process into play as a powerful ally in implementing the recommendations. Judgements will need to be made on a case-by-case basis.

BOX 3.11

ASSESSING IMPACT

In **Latvia**, a senior public servant took part in a functional review that had been felt to be beneficial and to have yielded practical results. This public servant subsequently became a

member of the local parliament and expressed his support for the review process, and in doing so gained positive political support for it.

Finally it is important to acknowledge that functional review is not a one-off process and as far as possible, measures should be encouraged that lead towards continuous reassessment. It is likely, therefore, that only part of the impact of a functional review may be immediate and in some cases, particularly where the political mandate for reform is weak, a review may become part of a

general external pressure for reform that will sit alongside, and be part of, other efforts. In this context, a process of deepening reforms after an initial functional review is likely to be important and any functional review report should identify the opportunities for deepening reform and subsequent programmes.

BOX 3.12

DEEPENING REFORM: ESTABLISHMENT OF AN ORGANIZATIONAL AND STRUCTURAL DATABASE IN RELATION TO STATE BODIES IN BULGARIA

The first functional review carried out in 1997 laid ground to further public administration coordination initiatives in **Bulgaria**. A permanent pattern of conducting public administration reviews was incorporated into the Law on Administration and with that the Register of administrative bodies in Bulgaria was established. The Register of the Administrative Bodies, a web-based information system, was completed at the beginning of 2000 and now includes a complete

description of all administrative bodies, as well as all the acts issued by them to date. Directorate State Administration within the Cabinet is the body responsible for the operational support of the Register. The purpose of the Register is twofold – to permanently monitor the status of the administration system, and to provide an opportunity for the citizens of free access to information about the work of government bodies.

Functional Review Implementation and Monitoring

As a rule, a final report is an output of functional review; it contains an analysis of the current situation in the respective country, main findings, and specific proposals and recommendations for changing and improving the situation.

In some cases, it is also advisable for the expert team to include a draft of, for instance, a proposed government resolution, or even an early draft of the required legal instruments. However, in this respect it is advisable to proceed with caution. In many cases, the report produced by the expert team is a draft for consultations and for review and amendment by the institutions themselves. Moving too fast and making the report look too final before the necessary review and consultations are carried out can alienate stakeholders and result in weakening of support. The best situation is one when the report of the team is accepted by the minister or ministerial committee responsible for

steering the report, who then proceed to get it approved by the concerned ministers and the government. Only then should the team be asked to proceed to the next stage, preparation of the appropriate draft legal instruments required to implement the recommendations.

TYPES OF RECOMMENDATIONS MADE

The objective of the majority of functional reviews conducted in the region was to assess the functions actually performed by the central government bodies and compare them with the functions that should have been performed by them and thus track down duplicity or disparities in these functions. The majority of final reports therefore proposed a new redistribution of functions.

BOX 4.1

UKRAINE: EXAMPLE OF A NEW DISTRIBUTION OF FUNCTIONS

The following new classification of functions was adopted in Ukraine: policy formulation, service procurement, legislation drafting, standards setting, development of regulatory acts

and procedures, control and inspections, proceedings in public complaints, and adoption of necessary measures. *(See also the example of classification of functions in Latvia, Box 3.8)*

In some cases, the implementation of functional review recommendations has prompted the adoption of new working methods by the central

government bodies and ensured a better transparency of public administration and brought public administration closer to citizens.

BOX 4.2

BULGARIA: FUNCTIONAL REVIEW AS A WAY OF BRINGING ADMINISTRATIONS CLOSER TO CITIZENS

After the necessity of effective instruments for permanent monitoring of the application and realization of the Strategy for establishing of a modern administrative system was noted, the Law on Administration, approved on the basis of the strategy, provided for the establishment of a Register of the administrative bodies.

The Register of the administrative bodies was established. It includes a complete description of all the administrative bodies in the executive system as well as the acts issued by the corresponding bodies. The Register of the administrative bodies represents a Web-based informational system accessible to all citizens. The operational support of the Register is carried out by the directorate 'State Administration' – a specialized unit in the Administration of the Cabinet, which has the following key missions:

- Analyses of the organizational status of the administrations in the executive system, of

human resources and their qualification and administrative services;

- Analyses the work methods and procedures in the administrations and develops projects of programs for their optimization and upgrading;

- Provides methodically the carrying out of the policy of management of human resources in the executive system.

An additional element in the system for monitoring of the status of the Bulgarian administration are annual reports, regulated by the Law on Administration, for the condition of the separate administrative bodies, which are handed to the Minister of State administration. The Minister of State administration prepares on the bases of these reports a general report for the status of the administration, incorporating recommendations on the priority measures, which need to be taken during the following year.

Finally, and most common, most functional review reports proposed the adoption of new regulations governing the management of the

administration and the flow of the policy process, as well as legislation, for instance, on the organization of the state administration.

BOX 4.3

THE LAW FOR THE ADMINISTRATION: A BREAKTHROUGH IN ADMINISTRATIVE REFORM IN BULGARIA?

The law on administration was approved by Bulgarian Parliament in November 1998. It determined the sphere of the state service and differentiated the political layer of the state governance from the administration, having created real conditions for depolitization and neutrality of the state servants. The goals of the law are directed to the creation of a professional and depoliticized state administration with clearly determined rights and responsibilities. At the same time it guarantees a career promotion of the servants according to their professional qualities and merits.

It set the following tasks: to determine the rules and the procedures for access of the citizens to any

kind of state information, which does not constitute a state secret; to define the information regime, ensuring the national sovereignty and the economic prosperity of the nation.

It highlighted enforcement tools: they are special structures necessary for pursuing the state policy. These structures will be responsible for a process of implementation of the Government Strategy for the Establishing of a Modern Administrative System of the Republic of Bulgaria, and consequently it will be in charge of developing and improving the administrative system. (*See also Box 4.2*).

The functional review final report is to be understood as a set of recommendations rather than commands. In order to ensure the implementation of the functional review recommendations, appropriate steps must be taken first. First and foremost, the report and its conclusions must be approved by the President or the Government. Oftentimes, the approval process is complex and time-consuming and requires additional discussions, meetings, and negotiations with the government officials. It is at this stage when the support of all the key players, mass media included, is of paramount importance. For example, in Slovakia, the Government approved the report after two months of intense inter-ministerial and political consultations, and pressure from the media, which wanted to see 'action instead of words' played an important role.

The experiences in the region have shown that the president or the Government are more likely to consent to the implementation of functional review than the implementation of the functional review recommendations. On the one hand, approving the functional review implementation means that there is a will to conduct a reform of public administration which, in most cases, requires the support of citizens (the result being an increase in the election poll figures); on the other hand, consenting to the implementation of the functional review recommendations means an actual implementation of the public administration reform.

Implementing functional review recommendations also requires adopting unpopular measures that affect the central government bodies. Interestingly enough, when being confronted with such a situation, as a rule, ministers tend to assume the role of protectors of their respective sectors. The more they are able to save of the old structures and procedures, the bigger heroes they are in the eyes of their subordinates. The introduction of unpopular measures may also lead to the weakening of the government coalition, as not all the government members will agree with them. Consenting to the implementation of unpopular measures goes hand in hand with assuming responsibility for them. Hence, it may happen that a Government which has given its consent to the functional review implementation will not adopt any measures to facilitate the implementation of the functional review recommendations, or, will transfer the responsibility for the functional review implementation to the relevant ministries.

IMPLEMENTATION OF RECOMMENDATIONS: WHAT FORM?

The implementation of recommendations can take various forms. In general, the type of functional review conducted determines at least to some degree the instrument to be used for its implementation.

The implementation of a **ministry-by-ministry vertical review** can take various forms. In its minimal variant a ministerial order that sets out the reforms to be implemented would suffice, which can work only in highly decentralized systems with high degrees of ministerial autonomy. It also requires the full commitment of the minister to the reform process. If either of these conditions is not fulfilled, this mechanism is bound to fail. In the case of far-reaching reforms, amendment of legislation government the sector covered by the ministry may also be required, which would already go beyond the scope of powers of the minister.

In systems where ministries have less autonomy, in particular where there are detailed centrally imposed constraints on staff numbers and budget, a resource agreement, as referred to in Chapter 2 above, would be a necessary condition for the implementation of review recommendations. In this kind of system, the simply commitment of the minister is insufficient, as he/she may at any point be overruled by higher authorities.

The implementation of both **horizontal and system reviews**, or any form of combined reviews, generally requires much more complex implementation mechanisms. These can range from strategic frameworks for administrative reform, packages of legislation, a government resolution, or any combination of these. The case of Kazakhstan, where budget reform was used as the key instrument, stands out as an interesting alternative. The adoption of such high-impact implementation tools requires building a broad political consensus around often controversial reform steps. This has proven to be highly difficult, in particular in a situation where there is a formal coalition government. However, also in single party governments or in presidential systems there have been serious problems over the adoption of reform packages based on functional review reports. The next section, on lessons learnt, will discuss ways in which such resistance can be pre-empted or overcome.

BOX 4.4

‘TRADITIONAL’ MODELS OF IMPLEMENTING COMPLEX RECOMMENDATIONS

In **Slovakia**, a government resolution was adopted after several months of negotiation between the coalition partners. The government resolution set out tasks both for individual ministers, regarding reforms in their sector, and for the Deputy Prime Ministers and the Ministry of Finance, for different horizontal measures.

In **Bulgaria**, the analytical report that resulted from the functional review was used as the basis for a comprehensive administrative reform strategy, which provided a broader basis for the implementation of the recommendations of the

review. Subsequently a package of six key laws was drafted and adopted to provide the legal foundation for the implementation of the review recommendations.

In **Latvia** the horizontal review carried out in 1997 provided background information and justification of the development of the Concept of the Development of Public Administration, amendments to the Civil Service Law, draft law on the Framework of Public Administration, and the Normative Act on Delegation of State Functions.

BOX 4.5

USE OF THE BUDGET PROCESS AS A TOOL FOR IMPLEMENTATION IN KAZAKHSTAN

In the summer and fall of 1998 the Ministry of Finance of the Republic of Kazakhstan was elaborating the 1999 Budget. Prior to commencing the 1999 Budget elaboration the administration of the Finance Ministry commissioned a group of ministry workers with implementing the following actions of budget programming: To work out precise criteria for evaluation of activities and methods of analysis permitting to evaluate the fitness of the activities of public institutions or of better transmission to the private sector of all or some of their functions.

- To collect and validate information relating to the sorts of the activities of public bodies, list of organizations performing the state functions, the status and the sources of funding thereof.
- To evaluate the functions of establishments funded from of the national budget in the conditions of a market economy; to distribute functions among different levels of power.
- To rationalize the functions of executive bodies in order to define what functions and institutions would not be funded from the national budget, and how that would be done.

BOX 4.6

IMPLEMENTATION FAILURE: DEVELOPING SUPPORT PROGRAMS FOR IMPLEMENTATION IN UKRAINE

During the review the behavior of the Ukrainian government varied in a mixture of evolutionary and revolutionary measures. For example, on the one hand, the government strove to conduct the review through a series of compromises between the existing system and the goal of an administrative reform. On the other hand, some of the Presidential and Cabinet decisions had a radical effect on the structure and organization of government agencies. The inconsistency of actions and decisions on the part of the government thus affected the stability and predictability of the review process.

In this situation, ministries did not often see any coherent initiative within the government to support the reform process. The absence of strong leadership and commitment to reforms in the executive led to the existence of at least three different centers of authority which could initiate and make decisions concerning the reform process: the CBEP Working Group, the President’s Administration, and the Main Department of the Civil Service. As a result, ministries often took this process less seriously, knowing that any decision could be subject to change through the lobbying efforts of another ‘initiative center’.

MONITORING IMPLEMENTATION: WHAT STRUCTURES?

It is very important to understand that political authorities do not implement reports and recommendations directly. They implement decisions, decrees, laws, and regulations. So a crucial step toward implementation is the transformation of recommendations into decisions. The study team makes recommendations to the authorities, but the authorities have to decide which of the recommendations to accept fully, which to accept in part, and which to reject. As was noted above, the study team can go some way toward transforming the recommendations into decision documents, but they do not make decisions for the government, and the government should have the full responsibility to view the recommendations critically, and assess their appropriateness, as well as the right timing and process of implementation.

For implementing the results of functional reviews, there must be a mechanism for transforming the recommendations into proposals for decision by the government. This mechanism should normally be a unit inside the administration, either within the administration of the Minister responsible for PAR, within the Ministry or Bureau of Public Administration Reform, or within other central institution, such as the Secretariat of the government.

The responsible unit should prepare a proposal for decision for consideration by the responsible Minister, and subsequently the government. The document should then be subject to the same rules that apply to all documents for decision by government, such as inter-ministerial consultations, consultations with NGO's, and review by the legal

department or legal council, according to the procedures in each country. The same central unit should also be responsible for monitoring progress once the decision is made and the implementation begins.

As a minimum, the proposal for decision should include:

- The recommendations that are brought forward for approval, including supporting rationale;
- Financial and other resource considerations, if necessary;
- For each recommendation, the ministry or agency that should be responsible for implementation;
- For each recommendation, the time table for implementation;
- Reporting requirements, including ministerial responsibility and timing.

It is very important that the ministries and agencies responsible for implementation should be involved and consulted in the preparation of this decision document. Otherwise, it will not be realistic, and implementation is likely to be difficult. In each Ministry or Agency that is responsible to implement recommendations, there should be a dedicated team. Ideally, this will be the same team that was set up for the review itself, but it may be necessary to make some changes depending on the implementation tasks. The work of the institution's team regarding implementation is likely to be more demanding than during the review itself.

BOX 4.7**IMPLEMENTATION AND MONITORING STRUCTURES**

In **Slovakia**, the Government resolution gave the authority to monitor implementation of the functional review recommendations to the same person who was responsible for the working out of functional review - Deputy Prime Minister. The working group, which had conducted the review, was transformed into a new unit called the Reform Implementation Unit. Its responsibility was threefold: prepare proposals of specific reforms that were the task of the Deputy Prime Minister, assist other ministries in their tasks and monitor progress of implementation of review recommendations.

The RIU is an ad hoc structure created by the Deputy Prime Minister. Its members are both government employees and outside experts. It has a director, who is responsible for a day-to-day management, and a chief consultant for substantive issues, who is responsible for overseeing content of all the specific reforms

prepared based on the Government resolution as well as their coherence and mutual harmony. In addition to that, there are three full-time chief consultants, who are responsible for specific areas of the functional review and they work with experts hired for specific purposes. In addition to that, there is an administrative assistant.

In **Kyrgyzstan**, the functional review report proposes to establish a special structural unit – agency for public administration and public service reforming. This agency should be created based on President’s Administration and/or Prime Minister’s Office approval and one of its objectives would be to coordinate functional review implementation and trace the review results. This agency should report regularly to the National Council on the status of the public administration and public service reforms, on the results of the functional review implementation and activities planned in the future.

The consequences of a failure to develop an adequate monitoring system are clear from the case of the Ukraine. Apart from the lack of a clear and

coherent follow-up strategy, the lack of a structure empowered to monitor follow-up stands out as one of the two main causes for the lack of progress in reform.

BOX 4.8**UKRAINE: LACK OF MONITORING LEADS TO SUB-OPTIMAL RESULTS**

Ten ministries were involved in the functional review process between 1998 and 2001. However, just as the government failed to adequately monitor the conduct of the functional review, it also failed to introduce any effective procedures to monitor implementation of its results. The functional review programme in Ukraine was

weakened by the absence of a general procedure which could monitor the implementation of agreed objectives upon and measures with individual ministries. Ministries were therefore left to their own devices to try to implement measures agreed upon in the report.

FINALLY, IS THERE AN EXEMPLARY MODEL OF IMPLEMENTATION AND MONITORING?

As has been pointed out several times, a precondition of an effective implementation of functional review and its recommendations is a political will and involvement of all the stakeholders. The president and/or the Government, once taking a decision to re-engineer the system and working procedures of the central state government based on the functional review recommendations, whereby the objective would be making the system more efficient and effective, is bound to conduct regular monitoring of:

- the implementation of the measures proposed within the functional review;
- the impact of these measures upon the quality of public administration, and
- the level of satisfaction of citizens.

The implementation of the functional review results is to ensure sustainable development of

public administration and hence, it cannot be a one-time or short-term affair. Therefore, monitoring ought to be a permanent strategic process focused on a regular observation and evaluation of the effectiveness and efficiency of public administration while reflecting the changing conditions in any given country. An institution tasked with the monitoring of public administration is expected to enjoy a solid position within the public administration structure and its tasks and responsibilities are to be clearly set forth. The institution is expected to conduct regular evaluation whether the public administration institutions carry out the activities with which they have been tasked, and, subsequently, whether these activities are being carried out efficiently. The first question to be posed by a monitoring institution is: Does a public administration institution deliver functions that have been assigned to it, or, does it deliver the services it should? If the answer is positive, the next question is: Is it feasible to enhance the quality of delivered functions, or, services, in terms of the structure of the organizational unit, resources (human, financial, technological), and outputs?

Conclusions: the Dos and Don'ts of Functional Review

The countries in the ECIS region pursue the same goal in their administrative development policy: building an efficient and effective state administration based on democratic principles. These principles as applied to public administration include accessibility, transparency and professionalism. However, regional systems of public administration have retained several features of the former communist regime in terms of the structure of institutions and style of the work of its personnel. With a view to eliminating these drawbacks and building a modern public administration, some countries in the region have opted for an instrument referred to as functional review. A functional review enables countries to analyze the current situation in public administration, compare it with its optimum state and thus form the basis for the development of a comprehensive administrative reform strategy.

Functional review must be based on a clear vision regarding the role of the state, a vision that must be transformed into specific, measurable, acceptable, realistic and time-sensitive objectives. Alternative strategies of reaching these goals must also be put in place. These global visions must provide a basis for the goals of the individual sectors of public administration.

The experiences of countries within the region that have used functional review as a reform tool show it is only one part of an overall effort to restructure systems of public administration and that they cannot be implemented in isolation. Public administration reform entails a transfer of responsibilities from central state administration to regional or local state administration bodies and of administrative tasks and responsibilities to local self-government and/or the private sector. It facilitates the modernization of public administration by making civil servants more professional as well as implementing information technology systems and ensuring effective control mechanisms. If governments show little interest in public administration reform, they have no interest in functional review either. In such cases, it is difficult to implement any recommendations based

on functional review. For instance, in Slovakia functional review was implemented within the framework of a public administration decentralization and modernization concept approved by the government. Hence political will is the foremost precondition of a successful functional review implementation.

The next task is to win the support of all the stakeholders interested in functional review. To win over everyone involved is not easy, as it means winning support for changes in the structure and operations of existing public administration institutions. In general, people are reluctant to accept change as it means giving up routine, abandoning well-tried methods of work and embarking on something new and risky. Resistance and reluctance among the public administration institutions are often features of review processes. It is not unusual for key institutions to agree with and support functional review as long as the changes proposed in its recommendations do not affect them. But people are much keener to implement ideas that are the products of their personal involvement. Hence, another precondition of a successful functional review is to ensure that all institutions concerned take active part in it. Some countries have exempted certain institutions from review processes to shelter them from changes. In some cases, this has concerned central institutions, such as the Presidential Administration. But this also concerns Ministries of Defense and Interior, which are often exempted for security reasons. Likewise, limits were set for functional review in advance. For instance, in some cases it was not possible to propose a reduction in the number of ministries, although such a proposal would be appropriate in terms of effectiveness and expedience. In other words, functional review results may be ensured only to the extent to which it is acceptable for the President or the government.

The first step in conducting a functional review is to communicate to all the stakeholders potentially affected by the process what the underlying reasons are for the review and what results are expected. It would be most motivating if initial information was

communicated by the individual responsible for functional review implementation, be it the Deputy Prime Minister or the minister tasked with review implementation (Slovakia, Ukraine), or the Head of the Presidential Administration (Kyrgyzstan). This would elevate the significance of functional review and would leave central administration bodies feeling more involved and thus more obliged to take an active part in the review.

Functional reviews are usually coordinated by a management team that, as a rule, is appointed by a person tasked with a nationwide functional review implementation scheme. In Kyrgyzstan and Latvia, the members of management teams were selected on a competitive basis through interviews. In Slovakia and Bulgaria, national non-governmental institutions were tasked with the conduct of the functional review (*See Box 2.7*). National and foreign experts were on the majority of management teams. In terms of the professional requirements expected of native experts, they were to have a clear understanding of public management issues, knowledge and understanding of the operation of

public administration and the mechanics of government as well as experience with analytical work. Bulgaria set up a management team consisting of local consultants who were not active in public administration so as to ensure maximum objectivity with respect to both the necessary assessment of conditions and the planning of concrete measures for policy enforcement.

Given the fact that some management teams referred to above did not have prior experience with functional review implementation, foreign experts assisted local experts in drafting the review methodology and also took part in the functional review implementation on a majority of the management teams. In Slovakia, in addition to a management team an official steering committee was set up. Members of the committee included the deputy prime minister responsible for functional review, state secretaries of the relevant ministries involved in the review, and several other individuals. The steering committee, the 'client' of the functional review process, was regularly informed of its progress.

BOX 5.1

UKRAINE

During the preparation stage, the management team developed and conducted various preparatory measures to ensure the realization of three key objectives. These included:

- building awareness within the Ukrainian bureaucracy of new approaches towards public management;
- creating a participatory environment intended to install within each ministry a feeling of ownership in the process;
- building competencies within the staff of each ministry to undertake the functional review.

In this regard, the management team took the following steps, with respect to each ministry, described below.

First, the management team held meetings with the minister and/or deputy minister of each ministry to explain the principles, objectives and procedures of the functional review. During this meeting, a discussion was undertaken with the minister and/or deputy minister regarding the ministerial mandate and responsibilities and necessary steps required by the management team. The discussion included the current organizational structure, constitutive documents of the organizational units of the ministry, and a proposal regarding the establishment of an internal ministerial group to participate in the review.

The **second step** was for the minister to establish a working group in the ministry (SWG). This was to identify and include in the SWG both ministry and agency staff who understood the mechanics of government and had sufficient personal authority and understanding of the reform concept of the government in Ukraine to push forward the functional review process. However, in practice, such groups usually included all heads of structural units in respective ministries, resulting in upwards of 20 members or more. Typically, the SWG was headed by a deputy minister with one of the SWG members appointed as a contact person to coordinate day-to-day activities with the management team.

Third, the management team and a contact person for the functional review from the SWG drafted the review schedule. This schedule mainly included a timetable for conducting interviews in each structural unit of the ministry.

Fourth, the first joint meeting of the management team and SWG was held and at which the involved bodies reviewed the functional review methodology and discussed sector objectives held in each ministry. During this meeting a schedule developed with a coordinator was usually agreed upon.

During the preparatory stage, members of the management team also reviewed all relevant normative legal acts to determine to what extent the tasks outlined in the Constitution and legislation were covered by the ministry and its structural units. The results of this comparative analysis were summarized in a separate table.

THE FUNCTIONAL REVIEW OBJECTIVE

The functional review objective, as laid out by individual ECIS countries was similar in a number of ways, with variations only in its scope. Although all the focus was on the building of an efficient public administration, identifying ways to cut state funds for public administration was a feature common to all of them. Until recently, the most common form of cost reduction was staff cuts to a percentage set by the government. This is somewhat ironic since experience from the region teaches us that funds allocated for wages constitute a relatively small proportion of expenditures while

other expenditures have rarely been examined in a consistent manner.

Functional reviews focus on the identification of data related to each function performed by the ministry, including the categories of function, outputs, service users, budget and staff required to perform these functions. Based on a comparative analysis, management teams found disparities between the tasks and functions to be performed and those actually performed by the ministries.

Based on the results of the analysis, all these functions have been broken down into categories based on whether ministries are expected to continue performing them, or whether they should

BOX 5.2**KAZAKHSTAN**

The functional analysis in Kazakhstan was conducted by the Ministry of Finance as part of the execution of the Decree of the Republic of Kazakhstan government, known as “On the Program of Further Reforms of the Public Service in the Republic of Kazakhstan and the government’s Plan of Measures to Implement It.” The functional analysis also involved the Program of Actions of the Republic of Kazakhstan government for 1998-2000, which was endorsed by the Decree of the Republic of Kazakhstan government to reform the budget program. A budget commission was created by order of the Kazakhstan Prime Minister to summarize the findings of the public sector functional analysis, to reach decisions on limits for funding a functional review of the national budget in 1999 and to plan actions to organize public finance. The first Deputy Prime Minister was appointed chairman of the

commission and its members were representatives of executive public strategic bodies and aides in the Presidential Administration and the Prime Minister’s Office. The commission outlined the results of work done on the functional analysis focused on the specification of a grouping of state functions, the distribution of functions between central and regional authorities, the transfer of functions of the review from one level of authority to another and the determination of the list of state bodies and a list of organizations gradually transferred to the private sector. The results of the work Ministry of Finance’s work on functional analysis were also summarized. On each state body, the commission, the list of the budget programs funded from the republic’s budgets, and forms of financing (complete contents, subsidy or as the state order in conditions of the market services) were determined.

be lifted, decentralized (transferred to self-government), de-concentrated (delegated to regional or local state government bodies), or privatized. (See Boxes 3.8–3.10; Box 1.4).

**FUNCTIONAL REVIEW FOCUS
– VERTICAL, HORIZONTAL
AND SYSTEM REVIEWS**

If functional review is to be implemented in its vertical form, that is, only at some ministries, it would be positive if institutions falling under the vertical functional review would told of their weaknesses, and based on functional review recommendations, re-engineer their organizational structure and management systems. However, one should keep in mind that such institutions belong to the public administration system and their restructuring makes little sense in a vacuum. Hence, findings of vertical functional reviews should be seen as pilot findings and, once assessed, applied to all public administration institutions. This could be followed by a horizontal review, addressing duplications in the system as a whole. However, the Latvian experience should serve as a warning: ‘No government body was in place that commanded sufficient authority to consider a review of multiple ministries; nor to summarize the results and develop proposals for the introduction of changes across the whole system of government’. (See examples in boxes in Chapter 2).

System reviews, just like vertical functional reviews, have their limitations. Indeed, while they allow comparison of functions common to various ministries, they do not focus on the justification of these functions nor assess the functions of a ministry in general. Although combined functional review is more expensive and time-consuming, it seems to be the best form of review in terms of its impact and efficiency. Close cooperation between the management team and all organizations involved in functional review must be established from the beginning of the functional review implementation. Once an individual tasked with functional review implementation and answerable to the President or government sets the review objectives it is the management team that should assume responsibility for all successive steps. The general strategy pursued by management teams was to first organize meetings with key officials in the relevant ministry during which the objectives, methods, and expectations of the review were communicated. These meetings were also important because the overall implementation of the functional review methodology was agreed upon, including the presentation of the relevant documents and information and the setting of a time frame for its implementation. Information on functional review must be continuously communicated during its implementation as well as final stages. All stakeholders who have taken part in the implementation process will be keen to learn about the review’s findings and recommendations.

Among the ways of motivating central state government organizations is a deeper involvement in functional review allowing these organizations to be first to learn about the review's findings.

METHODOLOGY

In a majority of countries, foreign experts have contributed largely to the drafting of functional review methodology. In addition to a greater involvement of all the stakeholders in the preparation and implementation process, and a mutual agreement on the mode of the functional review implementation across various institutions, all the countries have invariably used questionnaires and interviews with key personalities. These actions were preceded by information gathering campaigns and the scrutiny of material on the legal form of an institution, its status, organizational structure, responsibilities, technical equipment, staffing, and outputs. Some management teams gathered information on organizations by contacting external sources, for instance, users of the services and outputs of a particular organization. The comparative analysis method, mentioned above, facilitated the comparison of tasks to be performed and those actually performed by the institutions. Another frequently applied method was benchmarking, used to compare functions common to the individual sectors in conjunction with the number of the staff charged with common functions across the ministries. It was also used as a comparison of the proportion of personnel executing different types of functions, the budget per employee, or the user of the functions. Benchmarking was also employed to compare functions executed by ministries operating in the country and their counterparts in other states of a comparable size. In Slovakia, a dynamic analysis of employment structure development across individual organizations, over a span of several-years, has been conducted. (*See Box 3.7*).

A new method employed in functional review was the evaluation of outputs of individual organizations. This method was until recently

applied largely to private organizations. Functional review focused on outputs rather than inputs so the review focused on the number and nature of the outputs generated by an organization rather than the funds invested by the state into an organization.

TIMING

As regards the time frame of the functional review, a time limit could not be suggested on its implementation as its scope and depth varied across individual countries depending on the institutions involved in functional review. In the Ukraine, functional review was carried out in stages. Experience in the region has confirmed the belief that the implementation of functional review should not exceed one election term (e.g., in the Ukraine, functional review has 'outlived' three governments); otherwise, its implementation would be impeded. Neither is it advisable to launch functional review implementation prior to elections.

OUTPUTS

A final report detailing findings and recommendations, sometimes complemented by an action plan outlining how and when the proposed changes should be introduced, was among the most common functional review results. Another approach was to organize a workshop attended by all key players at which functional review conclusions were communicated and after discussion agreed on, altered or rejected. In Slovakia, the final functional review report was submitted to the Deputy Prime Minister along with an analysis of the current situation and specific proposals for change and improvement. The Deputy Prime Minister accepted the report and submitted it to the government. After two months of inter-ministerial and political consultations, the government approved the report. In Latvia, an analytical report on the collected data and recommendations was presented to the cabinet for decision and, afterwards, to the mass media.

BOX 5.3

SLOVAKIA

The working group submitted a report to the Deputy Prime Minister with an analysis of the current situation and specific proposals for change and improvement. The report was structured in the following way:

- general analysis of systemic problems affecting public administration;
- general solutions of these problems;
- application of these principles to specific areas and recommendations.

The report stated that a common problem in almost all post-communist countries - including Slovakia – inherited from the past is a focus on state ownership of goods and service providers in market activities and an associated lack of institutional capacity and de facto privatization of activities related to non-market activities.

Regarding non-market activities, the functional review recommends the following pillars of action, which, to some extent, will differ from the recommendations made in connection with market activities:

- Emphasis on the transparency of activities, financing, spending, and prices.
- Maintenance of the direct control of the state (in this case, of the central authorities of state administration) over carrying out non-market activities in the form of state ‘ownership’, and the change of structural and compensation constraints in carrying out these activities so as to enhance flexibility and motivational factors for both the organizations and individuals within the system framework, and also the quality of their work together with a marked enhancement of conceptual and strategic capacities of central authorities of state administration and improvement in their quality.

In market activities that need/need not be regulated, the functional review made the following recommendations:

- Introduction of transparency of activities, financing, spending, and prices.
- Transition from direct control over providers of goods and services to contractually-based provision of goods and services.

- Transfer of funds allocated directly or indirectly from public funds for the provision of goods and services from providers to buyers.

- Enhancement of competition and the deregulation of service and goods provision.

- Introduction of a simple and transparent regulatory framework in instances where there is a need for such a special framework.

- Gradual change of ownership of providers of goods and services presently owned by the state.

- Sweeping liberalization of wage, structural, and budgeting rules for the providers of these services within the framework of applicable legislation for non-profit organizations and also the creation of a new legal framework for delivering those market activities for which the present legal forms of organization are found to be inappropriate.

The report also made specific recommendations concerning ministries and other areas, such as property administration, public procurement reform, research institutions, training, consulting, accommodation, holiday resorts, catering services, services with legal monopolies, etc.). The Deputy Prime Minister accepted the report and submitted it to the government. After two months of inter-ministerial and political consultations, the government approved the report. The resolution that accompanied the report contained 53 tasks required for its implementation. These can be divided into various groups:

- 19 tasks for all ministers aimed at implementing some of the recommendations across the board;

- 13 tasks for the Deputy Prime Minister to prepare specific reform proposals (policy papers, government resolutions, laws) on most important cross-cutting systemic issues;

- 21 tasks for specific ministers to prepare reform proposals (policy papers, government resolutions, laws) on systemic issues in their own areas.

IMPLEMENTATION

It may be stated that the greater the involvement and willingness of the government or President to re-engineer the public administration system, the keener the interest to implement functional review recommendations. However, it should be noted that in the majority of countries, the willingness to implement functional review was found to be much greater than the willingness to implement the recommendations based on the functional review findings. Most often, functional review implementation was a result of compromise. For instance, while the Ukrainian government approved the necessary conceptual framework for the functional review process and delegated authority to conduct the review, it has never introduced a coherent procedure to monitor the results. Ministries were therefore left to themselves try to implement measures agreed in the report. In Ukraine, it is unclear which institution is to be held responsible for functional review implementation because according to the current legislation as many as three institutions may be tasked with its implementation. As a result, ministries do not take this process very seriously, knowing that any decision can be easily changed in their favor by

lobbying from another ‘initiative center’. (See Box 4.6 on implementation failure in Ukraine).

It has already been mentioned that the implementation of functional review recommendations is affected by human factors. Ministers still see themselves as mainly in charge of implementing narrow sector tasks and decisions, rather than in setting political objectives and achieving results on a sector-wide basis. As a result, they are often reluctant to take the initiative in the reform process. Mid-level bureaucracy is also resistant to change. For decades, most of today’s bureaucrats had been assured that the system in which they worked was the most optimal and that even if it required changes this would be taken care of ‘higher-up’. Most officials perceive administration reform as a threat to their seniority and job security. Functional review recommendations were not positively received, especially when drawbacks were identified by the management team. The team was then accused of incompetence as critics claimed its members did not understand public administration. It holds true that when a large gap exists between the current and proposed systems of public administration, special effort is needed to build awareness among all the stakeholders.

BOX 5.4

BULGARIA

In Bulgaria as a result of the functional review, the Strategy of Establishing a Modern Administrative System of the Republic of Bulgaria was prepared and approved by the government. On this basis, the Law on Administration was adopted, which in its turn facilitated the establishment of a register of the administrative bodies. (See Box 4.2).

The establishment of the register and other government acts is a step towards the creation of a more open administration. The Council of Ministers adopted regulations on keeping the register. It incorporates all basic ministries and agencies under the executive and contains information on their hierarchy, functions and normative acts concerning the general public. Data on the total number of employees and vacancies in each structure is also kept.

THE ROLE OF THE MASS MEDIA IN FUNCTIONAL REVIEW

Mass media hold a vital position in functional review preparation and implementation and in critical situations are likely to play a crucial role in tilting the balance in favor of functional review. Hence, the management team ought to maintain continuous and close contact with the mass media. Not all countries in the region that have implemented functional review were able to gain the support of the mass media. Among the positive

examples are Slovakia and Bulgaria. In both states, one of the functional review goals was to restructure central government in compliance with EU regulations, that is, the central government is expected to be effective and efficient as well as transparent. In order to ensure transparency, management teams did their utmost to make the entire functional review process transparent. Slovakia and Bulgaria on a regular basis kept the public informed of functional review progress and results via the press, radio, television and Internet. Also, public discussions were held with politicians

and citizens concerning the purpose and significance of functional review, enhancing the gravity and credibility of the entire process. The objective was not only to inform the citizens of the activity but also – first and foremost – to win their support.

From the outset the management team in Slovakia expected many civil service representatives and some politicians to show reluctance towards the project; therefore, mass

media became their faithful companion throughout the functional review process. Since the functional review was comprehensive, each minister or ministry found something against which objections could be raised. However, due to the support of the Deputy Prime Minister and the Prime Minister himself, and because of the broad media coverage during the government's consideration of the review, ministers eventually felt they had no choice but to accept the functional review with only minor amendments.

BOX 5.5

BULGARIA

The major results of the recommendations based on the accomplished review were:

- Quick improvement in the provision of information to physical and the judiciary about offered administrative services in separate administrative bodies.
- Information charts produced containing maximum information on administrative services available, taxes collected for them and the administrative unit offering data on its leadership and experts.
- Additional information about each administrative service presented in a suitable way – sample application forms for separate administrative services and accompanying

documents; brochures; bulletins; Web site address of the corresponding administrative body; information centers for visitors.

- Publication of a brochure called “Regional administration in favor of citizens and firms”.
- An organization created for the official delivery of necessary forms and applications needed to carry out administrative service.
- Different forms of dialogue with citizens on the improvement of administrative services – meetings and conversations with representatives of non-governmental organizations; questionnaires and clarifying emissions, broadcast by local media; reception offices in regional administrations etc.

The Slovak and Bulgarian experiences have shown that it does not suffice to keep citizens informed, however. Citizens have a responsibility to involve themselves in the functional review process,

especially via NGOs and various interest groups. Only in this fashion can a more effective and objective implementation of the functional review be ensured.

LESSONS LEARNT

1. ***The need for a clear goal and agreement between key players prior to starting.*** Such a goal or agreement must exist between public structures (executive and individual ministries), civil society, and the private sector on the basic directions and problems of public administration reform (Kyrgyzstan, Latvia). While difficult to secure, a unifying philosophy and the willingness of government to carry out the reforms are also key factors (Slovakia, Ukraine).
2. ***The establishment of a government unit or body strictly responsible for public administration reform or perhaps even strictly for the functional review process.*** This ensures that the momentum of reform is maintained and may also serve as a dispute resolution mechanism throughout the process. The establishment of such a body allows for the possibility of a more flexible strategy that can be modified based on feedback and observed needs as they arise (Slovakia).
3. ***Establish an action plan and follow it.*** The need for a clear implementation plan was emphasized in all the countries. This includes the need for a realistic assessment of the necessary time and resources to complete this plan (Kyrgyzstan). Clarification may be improved by the signing of an agreement of understanding on the roles and expectations between various bodies involved, i.e. between the ministry under review (Latvia) and the monitoring body, thus providing a benchmark for the review as it progresses.
4. ***Adequate training, raising awareness.*** Where government officials will be responsible for implementing the reform or heading working groups, sufficient attention must be paid to training in regard to the overall methodology of the FR (objectives, tasks) as well as specific FR approaches (Kyrgyzstan). Where a large gap exists between current and proposed systems of public administration, special effort is needed to foster awareness among all stakeholders (Ukraine). Ministries must receive relevant technical assistance and financial support to implement the results of the functional review.
5. ***Need for communication between consultants and the government and between various ministries.*** This should occur on a regular basis in order to ensure that all parties will buy into the project. This communication may take the form of the submission of a draft report with recommendations to ministry officials for review and comment, or through consultations with officials and politicians from other ministries (Latvia). Throughout the process, the press may be used to communicate activities to the public (as in Latvia) and to sway public sentiment in favor of implementation of the reforms (Slovakia).
6. ***Functional reviews must take account of the particularities of the situation under review.*** In the case of Ukraine this resulted in an evolutionary rather than revolutionary approach and the recommendations were implemented as complementary building blocks over several cycles. In other countries this determined the type of FR that was to be carried out. Factors to consider are the size of the country, levels of development, and the political and popular support for further reforms (Slovakia). This is especially true for certain types of reviews, the relationships between the various ministries, as well as the expected impact of the reform on other ministries. The Slovak case illustrated that while privatization of public sector services is generally preferable to non-market based solutions, it must be balanced with the consideration of the transaction costs of a market and contract based relationship. In underdeveloped countries, systems based on command and control principles require a less sophisticated set of institutions and management tools and can therefore sometimes be preferable. Further, distinctions should be made between long and short term possibilities for change, particularly with reference to such external factors as political business cycles.
7. ***The need for monitoring mechanisms and follow up.*** There is the need for an ongoing monitoring mechanism to ensure the action plan is followed. Assigning the task of

monitoring to a particular institution guarantees the focus of the review is maintained, targets set and methodology ensured (see point 2, above). The media may also serve an informal monitoring role for implementation of the desired reforms (Latvia). With regards to the results themselves parties must be aware that results may not be what was expected and the ministries must receive relevant technical assistance and financial support to implement the results of the FR (Ukraine).

8. Need to deal with freed up resources after the functional review. Prior to beginning the review involved parties should be aware of the

likely outcome of budgetary alterations and provisions should be made on how to deal with them.

9. Implementation of Review. During the implementation of the review it is important to refer back to the initial philosophy of the review as well as to clearly define those tools available.

10. Need to embed functional review policy in overall public administration reform. It is important that the FR is not seen as an initiative standing alone, but that it is widely recognized that its success is dependent upon its position among a larger commitment to reform.

CONCLUSION

Political support at top levels, consensus of all stakeholders, broad public media support, a professional management team and an appropriate methodology are sufficient guarantees of an efficient functional review implementation and, above all, the implementation of its recommendations.

The majority of functional reviews recommend the government gives up functions which they should not be exercising (operative functions) and instead, focus on those which the government is

obliged to exercise (strategic, legislative, methodological, coordinative). Changing the exercised functions also changes the organizational structures of institutions, rules, procedures and staff.

A typical characteristic of all the governments is that they are unwilling to voluntarily give up any of their tasks and responsibilities for fear of growing weaker. The contrary is true. If governments free themselves of all 'unnecessary' activities they now perform, they will have more time to exercise their major functions and make their performance more efficient and less costly. After all, this is the purpose and goal of each functional review.

Functional Review and the Overall Institutional Reform Context: a Suitable Tool?

This publication has examined functional review as a tool for public administration reform in the ECIS context. The frequent use of this particular instrument, associated as it is with managerial approaches to public administration, in a region mainly dominated by traditional European notions of public administration may come as a surprise. Many questions have been raised as to its suitability for this region and the experience that states have had with functional review processes has been far from universally positive. Nevertheless, in countries where the conditions set out in the previous chapter were 'right' review processes have provided a clear impetus to reform. Slovakia and Bulgaria stand out as the main examples here, with Latvia and Kyrgyzstan showing at least partial results. One important question to be addressed, which has been gleaned from almost five years of various forms of UNDP involvement in functional review processes, is to what degree support to such processes has contributed to the overall objective, and one of UNDP's six corporate objectives, of building democratic systems of governance in the region? If the answer to this question is negative, it is important to review the implications this has for future UNDP work, and possibly also for other funding organizations sharing similar objectives.

The first issue to be raised here is capacities to conduct the review process. Local capacities to conduct review processes are generally not available in the region. In states that are more advanced in the reform process, this problem can be addressed by providing support to local institutions. In the three EU candidate states reviewed in this publication, local management and institutional reform specialists played a key role in the review process, which they conducted either mainly themselves after limited on-the-job training, or together with international advisers. However, in other parts of the region such resources do not exist and engaging local specialists prematurely can create serious problems. At the same time, relying only on international experts is likely to produce equally negative results. A functional review under these conditions has to be framed in a longer-term

perspective, leaving sufficient time for the development of adequate local capacities. This obviously may go against the very nature of the process, as often reviews are conducted under heavy time pressure. Nevertheless, in such cases it is better to cancel a review all together rather than to invest in a process that is doomed to failure. Alternatively it may be possible, as has been the case in Kyrgyzstan, to 'correct' deficiencies in local capacities by allowing for a brief pause in the process and giving local experts time to catch up, even if this may not be possible in every case. In view of the experience of various states in the region, it may well be worth while for international funding groups to develop some form of capacity building initiative for local experts in order to create a better local basis for institutional reform processes.

The second issue to be considered is the nature of functional review. Functional review is often seen as a managerial tool associated closely with New Public Management, but the studies in this volume show that this is far from a universal truth. Even if cost-cutting and increasing efficiency is always an element of a review process, the extent to which functional review becomes a disguised tool for shrinking the state depends largely on the way the process is defined. In many of the cases discussed here functional review may have initially been intended as a tool for rationalizing cost-cutting operations. However, in many cases it has given an impetus to at least some investment in capacity building that may not have been feasible under other circumstances. In this respect, the way functional review processes are designed and conducted reflects above all the preparedness and ability of policy-makers to think strategically and assess what capacities will be needed in the long term. EU accession requirements may help push policy-makers in this direction, and this could explain why arguments pertaining to strategic thinking are sometimes more readily accepted in candidate states, and even in Ukraine, while regarded with more skepticism in Kyrgyzstan and Kazakhstan. International advisers can play an important role in advocating the inclusion of

assessments of capacity building needs in review processes. In our view, ultimately, this should become a condition for support.

A third important issue directly related to the link between functional review processes and human development is potential impact on key public services, such as health, education and social welfare. It is these particular areas where countries have experienced the greatest difficulties in changing the role of the state. The development of a strategic perspective on the transformation of the health and education sectors has come late. Some argue it has come too late to repair the damage done in the initial years of the transition. The weight of across-the-board staff cuts, combined with a lack of investment in central steering capacities has been particularly felt in these sectors. It may not therefore come as a surprise that in those states where functional reviews have focused on these ministries, conclusions have pointed to the need to re-orient the involvement of the state in these sectors, not to reduce it. Across-the-board cuts have little impact on the way a sector is organized and generally keep in place existing institutions, regardless of whether their continued support by the state is required. Questions regarding the necessity of maintaining state support for institutions are generally not asked. Functional review reports have often found that the continued funding, often for political reasons, of institutions that either play no role of importance in a market economy, or could be made self-sustainable outside the state sector, constitutes a huge drain on limited resources. Functional reviews have in this way helped to put issues on the political agenda which otherwise may have been declared off limits.

Obviously the use of this instrument does carry the risk of it being 'taken over' by over-zealous politicians, which could do even more damage to sectors that have in many states been weakened to an unacceptable degree. However, also in this area international institutions providing support to the review have a duty to anticipate and address such developments. Supporting a functional review process in this respect gives funding organizations an opportunity to steer reforms indirectly, which may have been impossible under other circumstances. Considering this, it is certainly better for an organization like UNDP to be part of such a process rather than to wait and watch from the sidelines.

One of the main objectives of this publication is to 'de-mystify' the concept of functional review and to assess the way it has been used as an instrument to stimulate structural reform of outdated state administration systems in the post-communist states of Europe and the CIS. Whereas the use of functional reviews has been much criticized in the region, the problems that have hampered the successful implementation of review processes appear to lie more in the design of the process than in the relevance of the instrument itself. Apart from the obvious need for strong political support, designing a suitable process, taking into account political dynamics and conditions as well as the developmental context of the review, remains the key condition for success. This publication should be viewed in this perspective, illustrating how to frame a review process, depending on prevailing circumstances. Applying the lessons set out here is certainly not a guarantee for success, but should help to avoid failure.

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Executive Summaries of National Reports¹

1.1. FUNCTIONAL REVIEW IN THE REPUBLIC OF BULGARIA

The original report on the functional review in Bulgaria was prepared by Mr. Julian Boev, Executive Director, Regional Y2K Coordination Center for Central and Eastern Europe and Central Asia

Background — the first functional review in the Republic of Bulgaria

The implementation of administrative system functional reviews has been widespread in the last four years in the Republic of Bulgaria. The first functional review of the Bulgarian administrative system was planned and implemented in 1997.

In 1997, when the decision to conduct the first functional review was taken, a new reformist government was elected. The newly elected government submitted its program *Bulgaria 2001* to Parliament. Its main goal was full membership in the EU and NATO. With that, active measures had to be taken to turn Bulgaria into a modern and steadily developing European country with a clear national identity and contemporary state government, capable of meeting the challenges of the twenty-first century.

The overall transformation of the governmental model of the country in accordance with the principles of the new Bulgarian Constitution became the foremost task in the implementation of the program. The first functional review was designed to assess the existing conditions of the public administration system, determine major strategic directions for the institutional establishment of the Bulgarian administration, as well as develop a universal plan for implementation of governmental policy with respect to public administration. The 1997 functional review incorporated all administrative bodies of executive power at central and regional levels, the

administrative bodies of the legal and legislative powers, and of the presidential administration. Twenty-six administrative bodies participated in the functional review.

How the functional review was conducted

The first functional review consisted of four stages. The scope of the functional review was determined during the first stage. The range, methodology, schedule, realization, consumers and resources were identified. The second stage of the functional review was devoted to the analysis of the existing informational infrastructure. The third stage was targeted at the planning and formulation of a strategy to implement a government policy for establishment of a modern administrative system in Bulgaria. During the final implementation stage, appropriate legislative and organizational measures were taken to ensure the establishment of a modern administrative system in Bulgaria.

The general functional review assessed the missions, functions and tasks of each administrative body and its units. It also formulated suggestions for reconstruction and planning of future activities. Those who planned and implemented the functional review did not intend to change the existing system of public administration or establish a new one. Rather, their purpose was to modernize the already existing system by making it more efficient, as well as by laying ground for the universal, strategically oriented and steady process of change.

The Minister of State Administration was responsible for the management of the general functional review. The implementation of the functional review was carried out in the framework of the Phare program. It was conducted by a project team consisting of local experts not employed in government. The final analysis of the information and the formulation of the proposed tasks were completed in collaboration with officials from the Cabinet administration and in agreement with other ministries.

¹ The National Reports are available on the web site of the UNDP Regional Support Centre in Bratislava: <http://www.undp.sk>

The first general functional review in Bulgaria resulted in *the Strategy for Establishing a Modern Administrative System of the Republic of Bulgaria* which was approved by the Cabinet in February 1998. A permanent system for continuous monitoring of the public administration system was incorporated in the *Law on Administration*.

Other functional reviews carried out in Bulgaria

The first functional review carried out in 1997 lay ground to further public administration coordination initiatives in Bulgaria. A permanent pattern of conducting public administration reviews was incorporated into the Law on Administration. With that, the *Register* of administrative bodies in Bulgaria was established. *The Register of Administrative Bodies* was completed at the beginning of 2000 and now includes a complete description of all administrative bodies, as well as all acts issued by them to date. The Register is a web-based information system. Directorate *State Administration* within the Cabinet is the body responsible for the operational support of the Register. The purpose of the Register is twofold – to permanently monitor the status of the administration system, and to provide citizens free access to the information on the work of the government bodies.

Another permanent practice established to monitor the Bulgarian public administration system in Bulgaria is the submission of all annual reports for each administrative structure to the Minister of State Administration.

After the first functional review was carried out in 1997, several horizontal and vertical functional reviews were in place in Bulgaria. A system of conducting horizontal functional reviews was established and its statutes were incorporated into the Law on Administration. Regarding vertical

reviews, several of them have been conducted since 1998:

- Review of the licensing, permit and registration regimes was carried out in November 1999-April 2000.
- Functional review of the systems for collecting, processing, and storing of personal information was conducted from November 1999-December 2000.
- Functional review to improve the organization and forms of providing services to physical and legal entities by the administration was carried out from June-December 2000.

Results of the functional review

The practice of carrying out functional reviews in the Republic of Bulgaria indicated that this method of studying the state of administration proved exceptionally effective in reforming the public administration system. The Bulgarian experience in planning a system of conducting functional reviews on a permanent basis, especially the web-based Register of administrative bodies, proved to be an up-to-date and efficient model for the creation an important prerequisite for further functional reviews.

At present, the major factors in the successful application of the functional review method are to a large extent due to the government's willingness to fulfill the recommendations following the reviews. At the same time, effective implementation of functional reviews is directly dependent upon the methodical and practical readiness of the project teams which are often pressed by lack of time and insufficient resources to manage and organize their work so that they can obtain the necessary objective information on the process or object under survey.

1.2. FUNCTIONAL REVIEW IN LATVIA

The original paper on the functional review in the Republic of Latvia was prepared by Ms. Svetlana Proskurovska, Deputy Head, Secretariat of Minister for Special Assignment on Public Administration Reform.

Background – first functional review in Latvia

The major task of the newly established Bureau of Public Administration Reform in 1997 was to review functions and structures of public administration bodies and provide recommendations to the government on how to rationalize the structures in order to avoid overlap and duplication of functions among the public administration bodies. It was assumed that existing public administration bodies in Latvia were engaged in performing similar functions with the same outputs, which created extra costs on the government, weakened responsibility and accountability of public administration bodies, etc.

The mandate received from the Cabinet of Ministers and formalized in a Declaration of the Intended Action of the Cabinet of Ministers determined the need for the horizontal functional review of all public administration bodies.

How the functional review was conducted

The horizontal functional review in Latvia was carried out by 4 civil servants of Bureau of Public Administration Reform with the technical assistance from Civil service Administration. The implementation of the horizontal functional review consisted of 3 steps. The information about functions, staffing levels and budget of ministries was accumulated by the Civil Service Administration during the first stage. Based on this information, special Regulation of the Cabinet of Ministries provided rough classification of basic functions of public administration bodies. The second stage was devoted to the analysis of the existing information about institutional functions. The areas of functional duplication and overlap across the sectors were identified and a preliminary list of institutions for further analysis was prepared. The third stage was targeted at testing the working hypothesis of duplication of functions and exploring the reasons whether the duplication can or cannot be eliminated. It was carried out with the help of interviewing the heads of public institutions about the functions they perform.

As a result, the Analytical Report on the horizontal functional review with recommendations on elimination of the duplication of functions and for further perspective steps in public administration bodies reform was presented to the Cabinet of Ministers in December 1997. The analysis of the public administration provided the background information and justification for development of Concept of Development of Public Administration, amendments in the Civil Service Law, draft law on Framework of Public Administration, Concept and normative act on Delegation of State Functions. Recommendations of the horizontal functional review were included into a strategic government plan of development of public administration till the year 2000.

However, horizontal functional review in Latvia did not provide an analysis of operational efficiency of public bodies. It didn't give an answer regarding the best way of allocation of functions that need to be carried out as a part of EU integration agenda. It became obvious that a further, in – depth “vertical” analysis is needed.

Other functional reviews carried out in Latvia

Following the same approach to analyze all government functions in 1997, the second and more focused stage of functional review in Latvia was initiated in 1999 – performing of vertical functional review of ministries and subordinate systems. Vertical functional review was carried out first in the Ministry of Agriculture in 1999, then – in Ministry of Economy and Ministry of Justice in 2000. The choice of the Ministry to undergo the vertical functional review was agreed among the 3 parties: the Bureau of Public Administration, which undertook the responsibility to organize and manage functional reviews, the World Bank, which allocated financial resources for implementation of public administration reform, and the Ministry concerned.

Functional review included the Ministry and various bodies under direct subordination and supervision of the Ministry and had the major goal to design the institutional framework for rational and effective implementation of public functions.

In contrast with the horizontal functional review, external and local consultants from private sector with clear separation of responsibilities among them were involved in the implementation of the vertical review. This brought into the implementation process, on the one hand, the necessary experience of reengineering of ministries

in other countries, and, on the other hand, it highlighted the practical role of local experts, responsible for collecting and processing of the data, conducting interviews in the Ministerial institutional system.

Monitoring of the functional review was a task for Bureau of Public Administration reform, and since reorganization in January 2000, the Secretariat of Minister for Special Assignment on Public Administration reform, as a central government body responsible for reforms in public administration. It also assisted when it was necessary to remove blocking issues that hindered the process.

Outcomes of the functional reviews

The methodology and process of vertical functional and organizational reviews carried out in Latvia proved to enable a Ministry clarify its role in public administration, mission, strategic objectives, functions and structures.

Involvement of an intermediary monitoring institution – Secretariat of Public Administration

reform – was proved to be essential to maintain the focus of the review on the set targets and to ensure that the methodology is observed. The accountability of consultant teams helped to influence the process and facilitate the good working relationships among parties involved.

At present, the commitment of a Ministry to implementation of the review and, more importantly, commitment to the designed course of reorganization are the key success factors. It is achievable through various methods: it is necessary to have an initial desire from the top senior civil servant in a Ministry to implement the review, the Ministry should have an opportunity to participate in the designing of the review, the Ministry and monitoring body should agree on their roles and expectations of a public administration reform, etc.

As Latvian example shows, the combination of horizontal and vertical functional review enables the government to improve capacity and efficiency of public administration.

1.3 FUNCTIONAL REVIEW IN THE REPUBLIC OF KAZAKHSTAN

The original report on the functional review in Kazakhstan was prepared by Marziya Muhanbetrahimovna Burangalieva, Deputy Chairperson of the Treasury Committee, Ministry of Finance of the Republic of Kazakhstan

Background and the purpose of the functional review

The necessity to conduct a functional review in the Republic of Kazakhstan in 2000 resulted primarily from large-scale economic instability that had affected the country in the previous years. The need to conduct a review of the public administration system in the Republic of Kazakhstan arose from the budget cuts in 1999, a necessity to lower national budget expenses in 1998 and 1999 due to an external economic crisis, falls in the prices on raw materials, production cutbacks in the key sectors of the economy, dwindling exports and receipts in foreign currency which all negatively affected the national budget and its implementation. The economic instability was coupled with the lack of efficient distribution of responsibilities among civil servants, and a great degree of overlapping in the functions performed by the public administration institutions.

The functional review in the Republic of Kazakhstan was conducted by the Ministry of Finance as part of the execution of the June 1997 *Government Decree* on reforming the structure of public service. The purpose of the functional review was to establish a procedure of defining the state responsibilities to pursue an efficient government policy and to achieve a stable standard of living for the population. The functional review aimed at building a rational system of public administration that would guarantee sustainable socio-economic development based on the efficient state regulation and creation of economic environment friendly to the private sector.

How the review was conducted

During the summer of 1998 the government of Kazakhstan undertook important activities to prepare the 1999 budget. The actions undertaken within this framework were later on considered to be part of the functional review since they represented an attempt to analyze the existing structure of public administration and rationalize distribution of executive power functions.

Prime Minister of Kazakhstan established a *Budget Commission* with the mandate to summarize

the findings of the public sector functional analysis, and to plan activities to better control public finance. Based on the functional analysis prepared by the Budget Commission, new approaches have been worked out as to the implementation of the budget reform. For example, certain functions within the central authorities were delimited, fixed guidelines of distributing the national taxes between the national and the local budgets were adopted, all financial resources of the state were consolidated into one single national budget.

The following are the specific initiatives which were planned to be implemented as a result of the functional review:

- Some government funded organizations with the exception of those working in the fields of general education, farming and environment were given authority to receive remuneration for their products and services thus becoming state-owned enterprises. This approach was taken with the intention of creating a competitive environment for the state-owned institutions in which they would act more efficiently.
- Government-coordinated pattern of financing many programs in the areas of higher education, transport, construction and utilization of mineral resources, culture, sports, etc. allowed to curtail expenses in these areas.
- Restructuring of the human resources within government institutions led to substantial cost-cuts in the government budget. A number of employees at government-owned enterprises have been reduced which also led to the reduction of government spending.
- The functional review proved to have a positive effect on the social sector because of the better allocation of the state funds.

Outcomes of the functional review

One of the main achievements of the functional review in Kazakhstan was the precise definition of the tasks and functions of the main public administration bodies. The following main categories of these tasks have been identified:

- Public services of general nature, including financial, auditing, external political activities, and others.
- Services provided to the society and households. These include education, public health, welfare and social assistance, housing and communal services and the like.

- Economic services. These include state activities applied to specific sectors of the economy such as farming, industry, construction, utilization of subsoil resources, transportation, communication, and the like.

Initially, only the organizations funded from the national budget were the primary subjects of the functional analysis. However, later on organizations funded from local budgets and from off-budget funds were also covered by the functional analysis.

The results of the functional analysis were presented in two reports issued in 1998 and 1999, respectively. As a result of the functional analysis, transition has been ensured from the principle of supporting budget-funded organizations to the principle of encouraging them to fund their own functions. A list of government institutions authorized to perform functions of administration, control, and surveillance has been defined more precisely; functions have been delimited between central and local executive bodies. Likewise, standards were established in terms of distribution of each type of receipts between the federal and local budgets.

The functional analysis formally defined the status of all the budget institutions in the country. A new term - *public institution* - has been introduced into the legal language of Kazakhstan. It was defined as “an institution supported from the national budget and empowered to assume financial obligations within preset budget assignments only.”

Based on the results of the functional review, several legislative acts and resolutions were passed by the government of Kazakhstan. Among them is the law *On Budget System* that set out the functions of national and local authorities, the *Resolution On Development of Market for Some Works and Services* which set out the principles of creating friendly market environment for the development of state-owned enterprises.

The performed functional analysis carried out in the Republic of Kazakhstan was not a single-time activity, and it will continue in the future, especially because of the need of decentralization of the functions performed by the state. In this connection, the government of Kazakhstan will elaborate the procedural budget methodology and delimitate the responsibilities of central and executive bodies of the state.

1.4. FUNCTIONAL REVIEW IN THE KYRGYZ REPUBLIC

The original report on the functional review in the Kyrgyz Republic has been prepared by Mr. Talaibek Koichumanov, National Policy Adviser of UNDP programme in Kyrgyzstan, Doctor of Economics.

Background

Reforms of the public administration began already at the beginning of the nineties in the Kyrgyz Republic. However, they were not consistent and deep from the standpoint of efficiency of public administration. In most cases, reforms represented a series of uncoordinated attempts to change the structure of the public administration system and reduce numbers of staff at government institutions. A complicated administrative system, poor quality of public services provided to the population, corruption within the government circles and growth of the shadow economy all demanded immediate changes in the system.

The decision to conduct a comprehensive functional review was made by the management of UNDP in Kyrgyzstan within the framework of the project on public administration and service reforming. Its main purpose was to establish conditions for radically positive transformations in public management, and to provide solid ground for the further process of reform in the government.

How the functional review was conducted

The functional review in the Kyrgyz Republic was carried out for the central authorities such as the President's Administration, Prime Minister's Office, Ministry of Finance, Ministry of Justice, Ministry of Labor and Social Security, Ministry of Industries and External Trade, Ministry of Agriculture, Ministry of Transport and Communications, Ministry of Education, Science, and Culture, Ministry of Health and Social Fund. Some administrative institutions subordinate to the central the government were subject to the functional review as well.

In the course of the initiative several types of review have been carried out: overall functional review with respect to the President's Administration and Prime Minister's Office, vertical functional reviews with respect to the Ministry of Education, Science and Culture and Ministry of Health, and horizontal functional reviews with respect to government institutions working in the social sphere.

The overall functional review included review of the Statute, legal acts, assessment of the role and position in the structure of executive authorities, and the review of functions being performed. It provided clarification of the role and objectives of public administration bodies based on new tasks relating to the transition to market relations, role of state and budgetary limitations.

The horizontal review was carried out for such key ministries as the Ministry of Finance, Ministry of Justice, Ministry of Labor and Social Security, Ministry of Industry and External Trade, Ministry of Agriculture, Ministry of Transport and Communications, Ministry of Education, Science and Culture, Ministry of Health and Social Fund. It took form of the review of personnel, finance, and legal services. The functional review was performed by means of information gathering through questionnaires, interviews with employees of ministry departments responsible for the performance of general functions. The vertical functional review included an analysis of sectoral functions of ministry departments as well as their subordinate organizations and agencies.

One of the most important tasks during the preparatory stage before the functional review was initiated was to study administrative reforming processes in the Kyrgyz Republic. This work was done with the purpose of clarifying the directions of reforming, objectives and final tasks. At the beginning of the preparatory work the members of the management team managed to visit Hungary and Slovakia with the purpose of getting experience in public administration reforming. Likewise, before implementing the functional review in pilot ministries, the management team members got acquainted with materials on review output in Latvia and Kazakhstan.

In order not to alienate civil servants working at the Ministries under review, and to make them active participants of the review and implementation process, joint teams of ministry workers and independent consultants were established to monitor the functional review process.

During the first stage of the functional review the management team studied the regulatory and legal documents related to the activity under analysis. The management team also studied the documents related to each organization's relationship with other structures. By doing this, the management team found out the disparities between the required and declared functions and prepared appropriate recommendations. At the end of the first stage of the review the management

team has given its recommendations to efficiently rationalize the work plan.

The principal aim of the second stage of the process was to conduct interviews with managers of the departments under review. The objectives and functions performed by these departments were clarified during these interviews. At the end of the second stage of the functional review the management team came to a conclusion that there were great disparities between the tasks declared by these departments, and the actual activities performed by them.

The purpose of the third stage of the functional review was to classify the main functions performed by the public administration bodies under review. The main functions were divided into sectoral policy, service provision, regulatory; coordination, monitoring and supervision, and support functions. After interviews had been conducted, international experts and members of the working group prepared separate reports based on their results. These reports reflected the purposes, objectives of interviewing, analysis, problems and recommendations. Finally, separate reports were integrated into one single report.

Implementation and outputs of the functional review

Implementation of the functional review of central public administration bodies in the Kyrgyz Republic was assigned to a *Working Group* under the *National Council for Public Administration and Service*

Reforms which was headed by the President of Kyrgyzstan. Head of the President's Administration was appointed Project Manager. The Management Team proposed that a special administrative body be established to monitor the implementation of the functional review, but no such body has yet been created.

At the end of the functional review process it was decided to publish the final report about its outputs. It was also planned to hold a Round Table of discussions of the review results. Based on the round table discussions, the implementation plan of the functional review implementation would be then finalized.

These proposed measures were implemented only partially. The final report on the functional review was published, and the round table was held. However, the Project Manager and President's Administration did not give their support for the implementation of the functional review results. The management team members explained this as a reaction to their critical remarks about the activities of the government officials, especially their professional skills.

This resulted in the removal of the remarks related to the professional skills assessment from the report. The final report will be submitted to the Head of President's Administration for consideration and further application during the restructuring process after project completion. The management team is currently planning to prepare an amendment to the law On Public Service and to draft the law On Public Administration.

1.5 FUNCTIONAL REVIEW IN SLOVAKIA

The original report on the functional review in the Republic of Slovakia was prepared by Mr. Miroslav Beblavy in cooperation with the Institute for Economic and Social Reforms, Bratislava, Slovakia, and the University of St. Andrews, St. Andrews, Great Britain.

Background and purpose of the functional review

The functional review in Slovakia, which was initially titled “*Audit of Financing and Activities of Central Authorities of State Administration and Organizations under Their Jurisdiction*”, was initiated in 1999 when the Slovak Government gave Deputy Prime Minister Mr. Ivan Mikloš the task of carrying out an audit of the activities and financing of state administration central authorities by June 30, 2000.

In 1999, the existing situation in public administration called for immediate action. After 1989 there were only partial changes made in state administration in Slovakia. The functions and structure of public administration could not keep pace with the sweeping changes that were taking place in Slovak society, turning the country from a state with a command economy into a partly decentralized state with a market economy. Thus, the purpose of the planned functional review was to propose both systemic and specific reforms that would go a significant way towards establishing a flexible, rational, well-arranged, and effective central state administration.

The purpose of the functional review in Slovakia became two-fold:

- To reduce costs in central state administration;
- To make central state administration more efficient.

The latter task was more difficult to quantify, but had a more far-reaching impact. Overall, the functional review covered 172 institutions, among them ministries, budgetary organizations and subsidized organizations, with a total staff of 40,962. However, the functional review was not designed to cover the entire central state administration system. Some areas of central state administration were exempted from the audit, since a specific approach was necessary to address their problems.

How the functional review was conducted

Deputy Prime Minister Mikloš set up a Working Group to conduct the functional review. The group consisted of representatives of state institutions, national and international experts. It cooperated directly with the *Institute for Economic and Social Reforms (INEKO)* and other donors, such as *UNDP*, *Phare* and *British DFID*. In addition to the Working Group, there was also a Steering Committee consisting of the Deputy Prime Minister, state secretaries of the most relevant ministries and several other individuals.

The methodology of conducting the functional review was largely connected with the task of obtaining appropriate information and interpreting it correctly. Information sources used for the analysis consisted of qualitative data, statutes or organization rules, quantitative data, information about the number of employees, and interviews with central public administration representatives. Before information was obtained through interviews with civil servants, data concerning the structure and preliminary indicative information about outputs had been collected. During the interviews, information regarding the structure of outputs was collected alongside with the information about human resources, information management systems, and the relationship between budgets and organizational structures. The analytical part of the survey demanded expert opinions on specific matters, such as, for example, agriculture and government office. International experts in these areas were invited to participate in the evaluation of the relevant departments. Two pilot projects were carried out during the functional review at the Office of the Government and the Ministry of Economy. They were carried out in two different ways:

- They were executed by a team of Slovak and international members and an international expert who was invited to participate in the project. Based on the project results and recommendations of the expert, the method of auditing central authorities was improved.
- A UNDP expert worked out an in-depth ‘value-for-money’ analysis of the Facilities Administration of the Office of the Government. Based on his analysis and recommendations the method of auditing subordinated organizations was further elaborated.

Implementation of the functional review and its results

In June 2000, Deputy Prime Minister Mikloš received an analysis of the existing situation in public administration in Slovakia, and numerous specific proposals for change and improvement from the Working Group. After two months of interministerial consultations, the Slovak government approved the report on August 30, 2000. The report presented a general analysis of systemic problems affecting public administration in the Slovak Republic, an overview of general methods to solve these problems, and application of these principles to specific areas and recommendations. The report prepared solid ground for the implementation of the suggestions stemming from the functional review.

The government resolution approved the functional review and gave the Deputy Prime Minister the authority to monitor implementation of the review recommendations, as well as to submit reports to the Government on their progress. The Working Group which had conducted the review was given the task of implementing its recommendations. It was renamed the Reform

Implementation Unit (RIU). RIU's responsibility was threefold: to prepare proposals for specific reforms, assist other ministries in their tasks and monitor the progress of review recommendations.

The audit carried out in the Slovakia proved that recommendations for any functional review should be based on the individual development of each country. Without taking into account such factors as the size of the country, development of its private sector, the country's legal sector and others, no reforms are likely to be successful. However, general knowledge of public administration and how it works is necessary to conduct any functional review.

The functional review carried out in Slovakia provided a solid basis for further democratic development in this country. The success of the functional review in Slovakia was due to two important factors: willingness to adjust to new facts and discoveries and ability to create working relationships with tens to hundreds of top civil servants with whom the audit team communicated. Political support for the functional review as well as broad public media interest were indispensable while carrying out the audit.

1.6 FUNCTIONAL REVIEW IN UKRAINE

The original paper on the functional review in Ukraine was prepared by Ms. Olha Lukashenko, Support officer to UN Resident Coordinator in Ukraine and Ms. Oksana Syroid, Head of the Secretariat of Analytical Counsel, the Cabinet of the Ministries of Ukraine.

Background

Following independence in 1991, the Ukrainian government recognised that a newly-born country emerging from more than seven decades of a one-party government system required not only new laws but also new governmental institutions. Structural changes at governmental institutions needed to be undertaken along with the political and economic reform underway in Ukrainian society. However, despite the fact that the need to carry out a structural reform was recognized as early as in 1992 as one of the highest priorities of the government's agenda, it was not until early 1997 that, under pressure from the World Bank and other donor organizations, the government slowly started to bring structural reform in Ukraine into effect.

The legacy that remained in Ukraine after the seven decades of the Soviet regime was a complex administrative hierarchy that planned and controlled all spheres of economic activity throughout the country. During the first years of independence many government institutions, both new and newly restructured, continued to administer and control the economy. The functional review process itself emerged from a policy dialogue between the Ukrainian government and the World Bank during 1996-1997, which resulted in an agreement to initially conduct functional reviews in the Ministry of Economy and the Ministry of Finance. The selection of these two ministries was based on the need to rethink the role of government to advance Ukraine's transition to a market economy.

How the review was conducted

In June 1997, the Ukrainian President established the *State Commission on Implementing Public Administrative Reform in Ukraine* (the PAR Commission) to be the lead body for the administrative reform process. The main purpose of the PAR Commission was to develop proposals regarding the structure, functions and procedures in the Ukrainian government to encourage the transition of ministries and other bodies of executive power from the "branch" to the

"functional" approach. The Presidential Decree of July 1998 adopted the *Concept of Administrative Reform* (Concept) that described the government's intention to create a new and more efficient public administration system.

The main objective of the functional review that was initiated in Ukraine was to identify and define the further direction of public administration reform at a central level. The review was conducted by interviewing focus groups formed by civil servants drawn from each of the participating Ministries.

The first target institutions that were chosen in 1998 were the ministries of Labor and Social Policy, Agricultural Policy, Science, and Environmental Protection. The pace of the functional review was slowed after the October 1999 presidential elections. Only in November 2000 did the Ukrainian Government reaffirm its commitment to the functional review programme. By the end of 2000, ten ministries were undergoing the functional review process.

The functional review mainly took the form of interviews of focus groups drawn from civil servants in each ministry. Questions relating to the nature of the functions were addressed during oral interviews as well as in separate questionnaires disseminated among the focus groups. To identify the possible transformation of each function, functions were grouped according to a prior developed *classification system* based on such categories as, for example, service provision, policy formulation, standard setting, and other categories. The classification system was not the only parameter introduced to measure the efficiency of the functional reform. Foreign "best practices" as well as objectives identified for each sector were also taken into consideration. Decentralization, redistribution, transfer to non-governmental organizations, merging, cost recovery and liquidation were the function processes taken into account while conducting the functional review.

The management of the functional review was performed by the *Working Group on Reform of Central Bodies of Executive Power (CBEP Working Group)*. A small team of four people from business and public sector backgrounds was drawn from a multi-donor project to support the CBEP Working Group. This team was appointed by Vice-Prime Minister Tihipko who was both head of the CBEP Working Group. Since the summer of 1998 the group performed the role of the central management team (MT) of the functional review process. The Management Team was composed of local Ukrainian experts and one international consultant supported by a number of

short-term international experts. Having gone through a review process, each of the ministries was asked to prepare a report that included proposals concerning a new organizational structure and an implementation plan.

Before performing the functional review as such, the Management Team undertook preparatory steps in respect of each Ministry. First, the MT held meetings with a respective Minister and/or a Deputy Minister to explain the principles, objectives and procedures of the functional review. The second step established a sectoral working group (SWG) within each Ministry. Third, the MT and a contact person from the Sectoral working group drafted the schedule for the review. The fourth step was to organize a joint meeting of the MT and SWG to discuss the functional review methodology in greater detail.

Implementation and results of the functional review

Regardless of the fact that ten ministries were actively involved in the process of the functional review, this process was limited in scope and depth. It constituted a vertical review of selected ministries, in which each ministry was part of a pilot project conducted at the central level without affecting the regional activities of the ministry in question. While

the Ukraine Government approved the conceptual framework for the functional review process and delegated authority to conduct the functional review to the CBEP Working Group, it never introduced a coherent procedure to monitor the results. The functional review was slowed also due to complex preconditions that existed prior to its launch. For instance, at the beginning of 1999, the structure of the Ukrainian central government was quite complex—it had 89 bodies with ministerial status. This complex administrative hierarchy that planned and controlled all spheres of economic activity throughout the country was a legacy from the Soviet era.

The functional review in Ukraine was not carried out under ideal conditions and was influenced by frequent changes in the government and the government's inconsistency of actions and decisions. Just as the Ukrainian government failed to adequately monitor the conduct of the functional review, it also failed to introduce any effective procedures to monitor implementation of the results. The functional review programme in Ukraine was weakened by the absence of a general procedure which could monitor the implementation of agreed objectives and measures with individual ministries. Ministries were therefore left to their own devices to try to implement measures agreed on in the report.

Sample Questionnaire Forms

2.1 BULGARIA

General Information

Number of staff (total for the institution):

By register Actually working

Links of rank and position:

vertical - superior:

- with the next level of superiority:
- with other superior bodies (*please, attach a detailed list*):

vertical - inferior:

- with units under direct subordination, external to the institution: (*please, attach a detailed list*)
- with other bodies, which are not under direct subordination, but have a lower rank in the hierarchy: (*please, attach a detailed list*)

horizontal:

- with bodies with a specific rank in the hierarchy: (*please, attach a detailed list*)

Functional relations:

- Indicate with which bodies and how frequently you maintain contact on a monthly basis: (please, list the names of the bodies and your reasons for seeking co-operation and/or information. In the last column mark the correct answer with ×)**

Administrative institution	On what matters do you need assistance?	Frequency		
		<i>up to 4</i>	<i>4-10</i>	<i>more</i>
1				
2				
...				

- What is the most often used form of contact** (*please, use the numbers for the bodies as listed in the table above, as well as the same principle when filling in the information; in the column "through other means" describe, for instance through a modem connection*)

Administrative institution	In what form do you ask for their assistance?				How do you get the information you demand?				How do you adopt the decisions?		
	<i>orally</i>	<i>in writing</i>	<i>in an official paper</i>	<i>through other means</i>	<i>orally</i>	<i>in writing</i>	<i>in an official paper</i>	<i>through other means</i>	<i>orally</i>	<i>in an official paper</i>	<i>through other means</i>
1.											
2.											
...											

Description of the Structures and Links in the Institution

Please, put down accurate addresses and telephone numbers of all buildings in which your administrative institution is located.

Administrative structure by unit and sub-units (*please, attach a chart - if available - and a description of the administrative relationship*)

Internal functional and operational links (*please, attach a chart - if available - and a description of the function by unit and sub-unit*)

Describe the links of hierarchy between the units in your institution

Staff description by unit and sub-unit (*Please, use additional sheets of paper or attach ready-made charts or materials on the topics above*)

Do all members of staff have job descriptions? (*please, attach them*)

- ♣ *yes*
- ♣ *no*

Describe the logistics and organization in the performance of the main functions in your institution:

Are the job descriptions in accord with actual working functions?

- ♣ *yes*
- ♣ *largely yes*
- ♣ *no*
- ♣ *I cannot tell*

Do you use non-declared links of rank when doing your job? (*please, describe them*)

Describe the logistics and organization in the performance of the main functions in your institution:

What are the specific and unique characteristics of your institution:

What is the timetable of working hours in your institution? (*hours per month*)

- ♣ *public reception:* _____
- ♣ *working with and processing documentation:* _____
- ♣ *drafting documents :* _____
- ♣ *expert and technical activities* _____

Describe the problems in performing your basic functions:

What is the system of control in fulfilling your tasks?

What is the organization of the information in your institution:

- *internally:*
- *as concerns the relation with the public and the media:*

What in your opinion needs to be improved in the internal information environment in your institution:

Information System

Is there a written strategy for the development of an information system in your institution?

(please, attach it)

- ♣ *yes*
- ♣ *there are separate papers on the matter*
- ♣ *no*

What is the purpose of the computer information system currently in use in your institution?

- ♣ *there is none*
- ♣ *processing of documentation*
- ♣ *drafting of documents*
- ♣ *expert and technical activities*
- ♣ *others:* _____

What kind of equipment do you use?

Description	Type	Quantity
♣ <i>local network</i>		
♣ <i>server</i>		
- Pentium		
- 486		
- 386		
- other:		
♣ <i>working stations:</i>		
- Pentium		
- 486		
- 386		
- 286		
♣ <i>peripheral equipment</i>		
- printers		
- scanner		
- archives		
- E-mail		
- others		

What kind of software do you use?

Type	Kind, description
♣ <i>programs with personal access</i>	
♣ <i>programs with group access (work flows, specialized data base)</i>	
♣ <i>specialized software for your institution</i>	
♣ <i>standard programs for Windows (word processing, electronic tables, etc.)</i>	
♣ <i>standard programs for DOS (word processing, electronic tables, etc.)</i>	
♣ <i>standard programs for other operation systems</i>	
♣ <i>others</i>	

How many people are using the information system officially?

Number

What processes have been automatized?

- ♣ *processing of documentation*
- ♣ *drafting of documents*
- ♣ *expert and technical activities*
- ♣ *others:* _____

What are the positions of civil servants whose work is automatized?

- ♣ *administrative managing personnel*
- ♣ *experts*
- ♣ *technical personnel*
- ♣ *others* _____

Is there document archive in your institution:

- ♣ *yes*
- ♣ *no – the documents are stored in the archive of* _____

Describe the system you are using for the classification of the documentation in an archive

(number the suggested options or describe your own system):

- ___ *by area;*
- ___ *alphabetically;*
- ___ *chronologically;*
- ___ *other:* _____

In order to solve the problems of your daily work you need:

- ♣ *additional essential information*
- ♣ *systematic organization of available information*
- ♣ *training*
- ♣ *lessening of administrative procedures*
- ♣ *better communication (with other bodies)*
- ♣ *additional technical equipment*
- ♣ *other:* _____

What is your attitude to forthcoming reform in the structure of public administration?

- ♣ *definitely positive - it will make the work more effective*
- ♣ *skeptical, although the idea is good*
- ♣ *it is impossible in practice*
- ♣ *it will not have an impact on the work*

Please, suggest necessary changes in the regulations and structures which you believe would going to improve the work of your institution.

Form 2. Legal Definition of CBEP Functions

CBEP functions defined by current legislation	CBEP functions defined by standard regulations (provisions)	Functions that are in fact performed by CBEP	Organizational unit responsible for performing a function
1	2	3	4

Form 3. List and Short Characteristics of Functions

Name of Department:					Number of staff				
Department objectives:									
#	Function	Number of staff performing the function	Outputs		Category of function	Customers (tick relevant boxes)			
			Type	Quantity <i>(if possible to define)</i>		Internal	External		
							Internal	Other ministry	Private sector or public
1	2	3	4	5	6	7	8	9	10
Additional comments and notes:									

Category of Functions						
Direct Service to Public	Policy Design	Policy Implementation	Regulation	Monitoring	Standard Setting	Complaints Consideration

Name of function		Category of function	
#	Question	Yes/No	Justification
7.	Is the function required by constitution, international or national law? <ul style="list-style-type: none"> • What law or normative acts require the function? • What law or normative acts define the results and procedure of the function? 		
8.	Can the function be charged without inequality of service? <ul style="list-style-type: none"> • Would political resistance emerge if the service charge were introduced? • Would there be a demand for the function if it were paid? • Would people with low incomes have barriers to the function? 		
9.	Is the public willing to pay?		
10.	Are there/ could there be suppliers? <ul style="list-style-type: none"> • Are there existing bodies that could perform the function? What are they? • Could a private entity perform the function? 		
11.	Would a private entity conducting the function create unfair competition on the market?		
12.	Would the price or standard of function need to be regulated? (If YES: regulated private enterprise/other non-government organization; if NO: private enterprise/other non-government organization) <ul style="list-style-type: none"> • Is there a need to ensure minimum standards of service/product? • Is there a need to keep price at a fixed low level? 		
13.	Can the function be transferred to another central executive institution? (If YES: identify whom)		
14.	Can an appropriate quality of function be achieved at lower cost? (If YES: transfer function)		
15.	Can the function be reduced in terms of quality or quantity? (If YES: reduce scale of function) <ul style="list-style-type: none"> • Is there a severe risk in reducing the scale of the function? • Is there a severe risk in limiting access to the function output? 		
16.	Can the function be merged with another without reducing the quality of service? (If YES: rationalize the function within the sector)		
17.	Can charge cover the function's costs?		
18.	Is the function profit oriented? (If YES: state enterprise; if NO: non-profit government organization) <ul style="list-style-type: none"> • Is the main purpose of the activity to make profit? • Is it expected that the activity make a profit? 		
19.	Should the function be subsidized? (If YES: subsidized state enterprise)		
20.	Can the function be delegated to the lower lever of executive power? <ul style="list-style-type: none"> • Can the function be delegated to a lower level within the sector regulation system? • Can the function be delegated to regional level? • Would an equal access to the function outputs be secured if the function were transferred? • Could the number of customers be increased if the access were expanded? 		

2.3 LATVIA

Form 1. Structure of divisions

Name of Department (or subordinate institution) (1):											
Position to which the department reports (2):											
Interviewer:						Interviewee (3):					
Objectives of Department (4):											
Type of entity(5):											
Departmental Budget(6):			Actual no. of staff (7):			Authorised number of staff (8)				Number of authorised staff (9)	
Non Staff	Staff	Revenue	Total	Specialist	Support	Total	Specialist	Support	Total	Civil Servants	Other employees

Structure of Department/Subordinate or Supervised Institution (10):

<div style="border: 1px solid black; padding: 5px; width: fit-content; margin: 0 auto;"> no: Department/Institution: No Ref. of specialists: No. of support staff: </div>			
Ref no/letter: Division: No. of specialists: No. of support staff:			Ref no/letter: Division: No. of specialists: No. of support staff:
Ref no/letter: Division: No. of specialists: No. of support staff:	Ref no/letter: Division: No. of specialists: No. of support staff:	Ref no/letter: Division: No. of specialists: No. of support staff:	Ref no/letter: Division: No. of specialists: No. of support staff:
Ref no/letter: Division: No. of specialists: No. of support staff:	Ref no/letter: Division: No. of specialists: No. of support staff:	Ref no/letter: Division: No. of specialists: No. of support staff:	Ref no/letter: Division: No. of specialists: No. of support staff:
Comments (11)			

Form 2. Characteristics of Functions

Name of Division(1):Ref: no/letter (2):										
Purpose of Division (3):										
Ref (4)	High Level Activities (5)	% of staff (6)	Outputs		Category of func- tion (9)	Customers (tick relevant boxes)				
			Type (7)	Quanti- ty (8)		Inter- nal (10)	External			
							Other ministry (11)	State establish- ment or subordina- te institu- tion (12)	Private sector or public (13)	
Suggestions & additional comments (14)										

Form 3. Analysis of Function

Summary of activity (1):		
Activity reference no (2):	Category of function (3):	
Question (4)	Y/N	Justification (5)
<p>Q1. Is the function required to protect the public? Is the function needed to protect the independence of the state? Is the function needed to protect public safety? Is the function needed to protect state assets? Is the function needed to stimulate or maintain the economy? Is the function needed to improve quality of life? Is the function needed to provide social security?</p>		
<p>Q2. Is there a demand for the function? (If no, abolish function) Do members of the public or private sector want the function?</p>		
<p>Q3. Does the ministry support the objectives? Which objectives does the function contribute to? Does the function contribute directly or indirectly to the objectives? What is the level contribution (if measurable)?</p>		
<p>Q4. Is the function required by law? Is the function required by international/EU law or agreement? Which? Is the function required by Latvian law or the constitution? Which? Is the law still valid in the market economy?</p>		
<p>Q5. Is the public willing to pay for the service? If charges were introduced would there be unacceptable political resistance? If charges were introduced would there still be a demand?</p>		
<p>Q6. Are there/could there be suppliers? Are there existing bodies that could realistically provide the function? Who? Could a private institution realistically be created to perform the function? Is there sufficient profit likely to attract suppliers?</p>		
<p>Q7. Would an unacceptable anti-monopoly situation arise? Would there be a provider with unfair competition?</p>		
<p>Q8. Would the price or function need to be regulated? (If Y: Regulated Private Company, if N: Private Company) Is there a need to ensure minimum standards of service/product? Is there a need to ensure prices are kept below a certain level?</p>		
<p>Q9. Can the function be transferred to another institution? (If Y: Transfer function) Is there duplication or overlap with other bodies? Is the function being conducted by the correct sector? Are there greater synergies with other entities?</p>		
<p>Q10. Can the function be reduced in terms of quality/quantity? (If Y: Reduce scale of function) Is there a significant risk in reducing the volume of the function? Is there a significant risk in reducing the access to the function? Can part of the function be abolished?</p>		
<p>Q11. Can the function be merged with another to provide economies of scale? (If Y: rationalise function) Is there another similar type of function which could be merged under one management structure, without affecting the quality of the function?</p>		
<p>Q12. Can the function be decentralised to improve effectiveness? Are customers dissatisfied currently with access? Is the function a service function with public customers? Would customers interests be significantly improved by better access?</p>		
<p>Q13. Would it be cost effective to de-centralise? (If Y: Rationalise function) Approximate the number of extra staff needed? (% increase?) Approximate the budget required (% increase?)</p>		
<p>Q14. Can the function be charged without inequality of service? Is the function applicable to all people? Would people unable to pay be severely disadvantaged? Are the ways of paying according to means?</p>		

Summary of activity (1):		
Activity reference no (2):	Category of function (3):	
Question (4)	Y/N	Justification (5)
Q15. Are the public willing to pay? If people are required to pay, will they still want the function? If people refuse to pay will the social, economic and political security be threatened? Will public dissatisfaction be unacceptable?		
Q16. Can charges cover costs? (If Y: self financing state enterprise) How much is the income? What are the running costs? With efficiency savings could the function be self financing?		
Q17. Can a subsidy be granted? Is the government prepared to contribute to the budget?		
Q18. Is the function profit oriented? (If Y: State Institution, If N: Non Profit State Institution) Is the purpose of the activity to make profit? Is it expected that that the activity should make profit?		
Q19. Can the function be delegated from the central ministry? (If N: Central Ministry function) Is the function a strategy, policy or co-ordination role requiring ministerial overview? To whom?		
Q20. Is the function given to the ministry by law? (If Y: supervised institution) Is the function defined separately in legislation, allocating to the ministry?		
Q21. Are the outcomes and procedures for performing the function defined in law? (If Y: Supervised institution) Are the outcomes clearly defined in law? Is there little scope for interpretation of regulations? Are the processes simple, uniform or automated?		
Q22. Should the director have freedom to manage resources or make decisions? (If Y: Supervised institution) Should the function be relatively free from political interference? Is the function one in which regulatory decisions are made? If the outcomes are clearly defined, should the director have freedom to make decisions about how the outcomes are achieved?		
Q23. Should the function be performed by civil servants? (If Y: Civil Servants, If N: Non Civil Servants) Is there a need to have continuity of staff? if yes CS Is the function policy or performance co-ordination in nature? if yes CS Is the function concerned with national security? if yes CS Is it beneficial to rotate staff to maintain skills? if yes CS		

Conclusion (6) (tick boxes that apply)	Abolish	Transfer	Reduce scale	Rationalise of activity	Decentralise
	Private company	Regulated private company	Self-financing state enterprise	Part funded state institution (agency)	Not for profit state Part funded institution (agency)
	Central Ministry	Sub-ordinate institution		Supervised institution	

Form 4. Decision Form

Name of Division (1):Ref: no/letter (2):														
Ref (3)	Decisions (4)				Type of institution (5)								Employment type (6)	
	Transfer	Reduce Scale	Rationalize	Decentralize	Regulated private company	Private company	Self-financing State Enterprise	State Institution	Non Profit State Institution	Central Ministry	Sub-ordinate institution	Super-vised institution	Civil Servant	Non civil servant
No. of staff required (7):										Number of authorised staff required (8)				
Specialist			Support			Total			Civil Servants		Other employees			
Additional information (9)														

Functional Review Guidance Notes

Form 1. Structure of Divisions

The aim of Form 1 is to define the structure of divisions or subordinate and supervised bodies.

1. Enter the name of the department if in the central ministry, or name of the subordinate institution, supervised institution, regional office or state establishment, state enterprise etc.
2. Name of the department supervisor: Enter the name and title.
3. Enter the name of the interviewee (preferably the head of the department/subordinate/supervised institution).
4. Enter a brief description of the purpose of the department that summarizes its core objectives, and is more detailed than the name of the department.
5. Enter the type of organizational entity according to agreed classification.
6. Enter the 1999 budget of the department or subordinate institution, if available in Lat1000. Enter the staff budget i.e. wages and security payments; the remaining budget for the department: and any income generated.
7. Enter the actual number of staff for the department, broken down into support staff, and specialists (non-support staff). This should include any contract staff and be based upon 1999 (January 1) figures if available.
8. Enter the authorized number of staff for the department, broken down into support staff, and specialists (non-support staff); for 1999 (January 1).
9. Enter the total numbers of authorized staff by employment type, according to the regulations of the department/institution (1999, January 1).
10. Draw a chart of the organization down to divisional level drawing in the relevant reporting lines. If sections report directly to a department include these two, enter the reference numbers as follows: All divisions should be separately numbered between 1 and 200. Each division or section should be allocated a letter. Enter the name of the division/section and the authorized number of positions for specialists and support staff (1999, January 1).
11. Enter any remarks that will enable analysis of the functions.

Form 2. Characteristics of Functions

The purpose of form 2 is to enable analysis of the functions in form 3, based upon knowledge of the purpose of existing and new activities; and to make estimates of savings or additional costs that will be required in restructuring. The approach must be pragmatic, and so estimates and judgements will inevitably be made in the completion of the form. This is to be expected, and only small judgements compared to the over-riding political judgements which will be made later.

1. Enter the division being analyzed.
2. Enter the division's unique reference number from Form 1.
3. Summarize the purpose of the division.
4. Enter the reference of the activity as follows: Each activity should be allocated a number which should be added to the unique divisional reference number. Thus, for activity one of division one of department one enter: 1A1. For newly identified functions not yet performed, enter 'N' after the reference e.g. 1A7N means the seventh function of Division 1A is new.
5. Summarize the existing main activities or new required activities of the division. Attempt to ensure that the activity can be described as only one functional category. If many functions are present, break down the activity into smaller activities if this is possible.
6. Estimate through interviewing the average staff time projected to be spent in 1999 on each activity (use 1998 figures where these are not available). It will be also necessary to estimate an additional % of time required for new activities
7. Describe the main output of each activity, such as a regulation, letter, certificate, payment, visits, lectures, advice, complaint etc.
8. Try to estimate the average forecast/expected number of outputs in 1999, eg number of laws, letters, transactions, complaints dealt with. (Use 1998 is these are not available).
9. Enter the category of function: P for policy; C for Co-ordination, supervision & performance review; R for regulation; D for service delivery; S for Support.
10. Tick a box if the output is for an internal customer within the same sector.
11. Tick a box if the output is for parliament, another central ministry or cabinet.
12. Tick a box if the output is for a state establishment or sub-ordinate/supervised institution.
13. Tick a box if the output is directly provided to a private organization, interest group, NGO, or member of the public, including farmers etc.
14. Enter any remarks that will enable analysis of functions.

Form 3. Analysis of Function

1. Enter a brief summary of the activity from form 2.
2. Enter the activity reference number from form 2.
3. Enter the function category from form 2
4. Interview using the questions and sub-questions if required. Refer to the analytical framework.
5. Enter the justification, giving the names of relevant decrees and statistics where required.
6. Tick all those decisions which apply.

Form 4. Divisional Decision Summary Form

1. Indicate the name of the department
2. Indicate the division's unique reference number
3. Indicate the reference number of the divisions' activities
4. Indicate the decision on the treatment of functions, tick all those boxes that apply
5. Indicate the type of entity that will perform the function, tick only one box.
6. Indicate whether employees should be civil servants or other, tick only one box
7. Estimate the change in authorized establishment required resulting from any changes, for specialists and support staff.
8. Estimate the number of civil servants or other employees required.
9. Indicate any additional information.

Terms of Reference for a Functional Review in Latvia

THE TERMS OF REFERENCE FOR FUNCTIONAL AND ORGANIZATION REVIEW, PREPARED BY THE SECRETARIAT FOR THE PUBLIC ADMINISTRATION REFORM IN LATVIA, JUNE 2001

Background

Since regaining independence in 1991, Latvia has been developing governmental structures to meet the demands of a modern democratic state. However, institutional structures do not always match government objectives: public functions in some cases are outdated, management and coordination structures as well as reporting and financial accountability mechanisms are inadequate, pay and incentive systems are non-transparent and inefficient and performance measurement and evaluation are lacking. Despite considerable progress since the re-establishment of the Latvian Republic, reforms in the public sector remain a top priority for Latvia's accession to the European Union.

In 1999, with the assistance of World Bank through IDF grant, Latvian administration started developing and piloting functional reviews in order to streamline its administration, improve rationality, transparency and accountability in separate sectors: agriculture, economy, justice. The methodology of functional review was developed and piloted in three ministries (Agriculture, Economy and Justice), which assisted in identifying each ministry's mission, strategic objectives and functions to be retained, devolved, discontinued or undertaken in light of emerging priorities. The methodology was based on a logical decision-making tree, which allowed decisions on what level of governance functions could be allocated and what would be the most appropriate structure to carry out the function. Although the methodology included assessment of resources that should be re-allocated or saved with the transfer of structures, it rarely matched real financial allocation and management reality. There was a lack of information available linked to concrete tasks and

functions and budget management was input-oriented.

In spring 2000, the Ministry of Finance followed with a review of financial management. The review was performed in the Ministry of Justice and the Ministry of Agriculture to help these ministries bring together structural setting and financial management issues. The report elicited a number of valuable recommendations: improvement of public expenditure management should be based on linking policy, planning and budgeting. Ministries do not currently have adequate data for analysis of efficiency and effectiveness of spending, few programmes had meaningful performance indicators to measure the use of resources. Ministries planned their activities without establishing priorities. Therefore, despite a formal programme budget structure, programmes are simply either input categories or groups of institutions. Thus there are few meaningful performance indicators related to outputs or outcomes of programmes. Without outcome and output indicators it becomes impossible to develop concepts of efficiency and effectiveness of government spending. Budget planning emphasizes the incremental approach, in which things are adjusted at the margins and neglect medium term priorities. A centralized budget is also a product of centralized and inflexible budget control.

Analysis of budget planning, implementation and control in two ministries revealed that the reform of public expenditure management will require a major revision of the programme budgeting system in all ministries, which will require a medium term expenditure planning framework to be put in place and establishment of sectoral priorities. Referring to the functional reviews, the public expenditure review *recommends linking functional reviews, expenditure management and strategic planning*. Strategic plans should address sector objectives, priorities, structures, programmes and annual plans. The strategic planning exercise should develop a greater congruence between proposed structures from the functional reviews,

the priorities and programmes and the associated budgets for programmes.

The report concludes that the **separation of functional and expenditure reviews has proven inefficient for managing the process of change in the ministries.**

Latest developments in Latvian public administration linked to strengthening policy coordination function at the center of government by establishing a department of Strategic Planning and Policy Coordination at the State Chancellery, call for additional attention to be paid to the structures of government. Integrated policy as viewed from the central government perspective warrants better understanding of the effectiveness of interaction of various structures involved in policy implementation. The central position helps to observe and identify inconsistency of allocation of functions and competencies across the administration. To ensure effective government work and consequently effective and efficient public expenditure management a coherent allocation of responsibilities is key. An instrument to ensure intra-ministerial structural and functional coherence is a horizontal functional review within certain government policies.

With the assistance of the World Bank through PHRD grant the methodology for fundamental public administration review is designed to cover both a 'vertical' and 'horizontal' review. It will be 'vertical' in the sense that it will cover the strategic aims, functions, organization, funding and performance arrangements of a particular sector (or particular public policy) in the ministry, its agencies and any subordinate bodies or offices at a local level. It will also be 'horizontal' in that it will examine other ministries, agencies and bodies undertaking activities that are relevant to the implementation of the policy priorities of the sector concerned.

Regional development and planning is one of the emerging priority policies for Latvian administration due to a number of affecting factors. European integration offers considerable opportunities for economic and social development of the country by providing pre-structural funds and structural funds after accession to the EU. Strategic planning of regional development, designing programmes and projects, and building a proper administrative structure for management of structural instruments becomes a key issue for effective and efficient utilization of EU structural funds and as a result economic and social growth of the country and its regions.

Earlier in 2001 cabinet adopted a resolution providing strengthening the institutional capacity of the current Secretariat of Minister of Special Assignment on Cooperation with International Financial Institutions and extending the current mandate of the Secretariat to include regional development and planning. This should result in establishing a central government institution responsible for elaborating regional development policy, coordinating its implementation with the use of various instruments, including EU structural assistance instruments.

Currently more than one central institution is responsible for regional development: Ministry of Environment and Regional Development, Ministry of Economy and Secretariat of the Minister for Special Assignment for Cooperation with International Financial Agencies (SMSACIFA). Fragmentation of tasks related to regional development in Latvian administration leads to inappropriate spread of personnel resources, which seriously diminishes efficiency and dilutes responsibility for design and implementation of comprehensive policies. The review of the present and future challenges of regional development policy should provide the government with a clear option document for defining strategic objectives, competencies of the institutions that can effectively design and implement regional development policies and required financial resources adequate to the tasks.

The present administrative territorial division in Latvia does not ensure effective economic and social development and cohesion. A big number of municipalities (552) in a country with a total population of less than 2.4 million inhabitants does not ensure the necessary scope for coherent economic and social development. A system of five planning regions is emerging, which will be underpinned in forthcoming legislation.

The fundamental review in this pilot should focus on

- clarifying the scope of regional policy with clearly measurable objectives;
- developing institutional frameworks for policy development, strategic planning and programming;
- reviewing instruments for implementation of this policy (including funds); and
- designing an institutional structure which meets implementation and accountability requirements.

Objectives

Technical assistance is sought to achieve the following objectives:

1. Undertake a pilot **Fundamental Public Administration Review** of regional development policy and institutional structures (functions and programmes) and budgetary allocations, in order to ensure that strategic policy goals are achieved in the most effective and efficient way. The sector must be reviewed along two major dimensions of regional development policy in Latvia:
 - (1) achieving internal cohesion (reduction of development disparities) among different territories within the country, and
 - (2) achieving convergence (reduction of development disparities) between Latvia (one of the smallest European Union candidate states regarded as a single region in EU Regional Policy) and the EU.
2. Test the methodology for fundamental review, which builds on functional review methodology and expenditure review methodology and modify the former as needed to achieve the goals of development of a public administration system capable of effective and efficient delivering of policies.
3. Provide recommendations on rationalizing systems and structures within the sector, with a view to improving the accountability, effectiveness and efficiency of public administration.

Tasks

1. Using the prepared fundamental public administration review methodology, undertake a fundamental public administration review of the regional development sector, focusing on the following key issues:
 - review the existing policy on regional development, analyze the external and internal factors shaping future regional development policy in a country, acceding to the EU between 2003-2004, and formulate proposals for medium and if possible long term policy goals and advise on reallocation of budget programs to the identified public bodies in the light of the government's policy stance;
 - review the existing institutional arrangements designed for developing and implementing the policy on regional development and propose optimal

structures for implementing policy goals and effectively using the available implementing instruments, including Phare, ISPA assistance;

- based on policy goals, available instruments and proposed institutional structure, design output oriented budget programmes (define the programmes, their structure of the programmes and expected outputs) within existing budget constraints and make projections for medium term budget requirements for implementation of policy goals.
2. In cooperation with the State Chancellery, SMSACIFA, other institutions (national and regional) deal with the issues of regional development, and build on any previous strategic work undertaken in public administration, draw up and agree a strategic set of aims and objectives for the sector as a whole with the relevant parties.
 3. Examine the policies (both national policies of regional development presently functioning and future needs for Latvia's participation in processes of EU regional policy), structures and functions in key ministries within the sector to determine which are involved in delivering the sector's policies and the relevant functions that are being carried out by these ministries. This work should build on the functional review methodology used in Latvia.
 4. Based on agreed strategic goals and objectives, assess whether existing functions are correctly allocated against these strategic aims and priorities and whether all necessary functions are performed to a sufficient level to achieve set aims and priorities. On the basis of this investigation, draw up a desirable program structure, identifying missing programs, unperformed and redundant functions as well as programs and functions that are duplicated between ministries. Taking into account the specificity of regional development sector the assessment also should focus on issues of clear allocation of responsibilities, role of the lead institution, and co-ordination mechanisms.
 5. Identify resources devoted to existing functions and map these resources into the new recommended program structure, determining areas where resources are wastefully deployed and the extent of unfounded mandates.
 6. Consult with the Ministry of Finance, provide suggestions for performance measures to monitor the new program structure.

7. Write a report with recommendations to the government on the proposed policy framework on regional development and institutional structures to deliver policies and budget programs that are compatible with policy outcomes. Suggestions on redeployment of functions and funds across ministerial boundaries to create a sustainable institutional system for developing and implementing policies should be included in the report. Include proposals for amendments and improvements in the methodology for performing a fundamental public administration review, based on experience gained during the pilot review.
8. Implementing arrangements

This fundamental review will be conducted by a team of experts working in a close relation with the Steering Committee. The team of experts will include:

- A **leading external consultant** who should undertake a planning, oversight, guidance and assistance role in the project. The leading external consultant will act as the overall supervisor of the project and ensure that international best practice in public administration reviews is available and utilized. The principal role of the leading external consultant will be to provide advice and guidance to local consultants.
- The **external policy advisor** should use EU policies and procedures and experience in regional development policies in member states and candidate countries to review existing policy on regional development in Latvian administration and make appropriate policy proposals. Should it be possible, he/she will advise on reallocation of budget programs to identified public bodies in the light of the government's policy stance. The advisor should identify the key strategic objectives for medium term regional development policy and suggest a framework for policy implementation based on the best practice and suited to the Latvian administrative and political environment.
- A **team of local consultants** is responsible for conducting the fundamental review under supervision and detailed guidance of the leading external consultant and for

preparation of the final report. They should review organizational mandates, carry out a stakeholders' analysis, review institutional functions of bodies currently involved in the design and implementation of regional policies and institutional arrangements. Local consultants should produce outline institutional arrangements and a programme structure. They should also provide an indication of the main results this programme structure would deliver. Local consultants would also produce a provisional map of existing resources onto the proposed programme structure.

In order to ensure coordination of multiple stakeholder interests, this project will be undertaken by the experts in coordination with a steering committee, including the major stakeholders: Secretariat of Public Administration Reform, Ministry of Finance, State Chancellery, SMSACIFA, Ministry of Economy and Ministry of Environment and Regional Development. The Steering Committee should review and agree the implementation plan of the fundamental review, review and comment on the strategic objectives of regional development policy, review the preliminary analysis of the situation in the field of regional development policy, consult experts on government general priorities and commitments that impose a restricted framework on the design of the new institutional structures and their respective allocations. The Steering Committee should approve the final report prepared by the consulting team.

To ensure that the output of the fundamental review will facilitate the rationalization of the regional development sector, high level commitment from the leading stakeholder – SMSACIFA should be developed through several means: Signing the Memorandum of Understanding on objectives of the review, commitment of both parties (SMSACIFA and PAR Secretariat) to deploy necessary resources for the successful implementation of the review and commitment of SMSACIFA to implementing proposed recommendations.

Draw up a clear timetable for the review itself and for implementation of the review recommendations, in consultation with the PAR Secretariat, the State Chancellery, and SMSACIFA.

Deliverables

1. A 'Memorandum of Understanding' between the parties concerned with the review covering the aims, conduct, and presentation arrangements for the review.
2. A working paper containing the review of the existing policy on regional development and appropriate policy proposals, and identification of the current medium term budget provision and comments on the adequacy of this provision in the light of the government's policy.
3. A statement of strategic goals and objectives for the sector as a whole.
4. Recommendations for eliminating redundant or overlapping functions of institutions within the regional development policy sector and addressing the functional areas neglected until now within the sector.
5. A program structure for the lead institution linking this proposed structure to existing budgetary allocations, including the proposed transfer of funds from institutions with the policy sector.
6. A set of suggested performance measures to monitor program results.
7. A final report summarizing work done and including any recommendations for improving the accountability, effectiveness and efficiency of the sector agreed with the stakeholders and approved by the Steering Committee. The contents of the report should feature:
 - A description of methodology used, including the indications where the existing methodology was amended;
 - A statement of strategic goals and objectives with identified program outputs;
 - Analysis of the current situation in the sector, including the objectives pursued, institutional arrangements currently in place and existing funding levels;
 - Proposals for a new institutional system matching the strategic objectives and the challenges of EU integration, transfer, change and undertaking of new functions meeting strategic objectives;
 - Proposals for the budget programme structure linked with strategic objectives and required outputs;
 - Recommendations on the short-term and medium term action to implement the required reorganization.

Reporting

On contractual matters consultants will report to the Deputy Head of Secretariat of Public Administration Reforms

Ms. Svetlana Proskurovska.

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Mr. Normunds Malnačs will be the contact person at the World Bank Latvia Mission.

Phone 7507056,

e-mail nmalnacs@worldbank.org

Consultants' profile

1) Leading external consultant:

- a) At least five years experience in the public sector
- b) Proven record of designing and implementing management system in public sector institutions
- c) Good knowledge and experience with modern public expenditure management systems
- d) Good knowledge and experience with governing principles of public sector management
- e) Record of management of institutional reform an advantage
- f) Fluent English
- g) Excellent communication and presentation skills

2) External policy advisor:

- a) At least five years experience in regional development policy planning
- b) Good knowledge and experience in strategic planning
- c) Fluent English
- d) Knowledge of Latvian situation in regional planning will be an advantage
- e) Excellent communication and presentation skills

3) Local consultant(s):

- a) Experience in functional reviews in public administration
- b) Good knowledge of public management issues (in Latvia)
- c) General understanding of program budgeting issues
- d) Fluent English

Schedule and technical details

The project must be implemented within a two week period, starting on July 2, 2001. The three copies of the final report in Latvian and English should be submitted to the PAR Secretariat together with the approval of the Steering Committee.

Payment according to contracts signed individually with the lead consultant, advisor on regional policy and local consultants, and based on the submitted invoices and supporting documents will be made to contractors within one month from the date of submission of the invoice to the specified bank accounts, but not later than three months after the end of the project.

Functions of the Directorate “State Administration” in Bulgaria

THE DIRECTORATE “STATE ADMINISTRATION” – A SPECIALIZED UNIT IN THE ADMINISTRATION OF THE CABINET IN BULGARIA, APPROVED BY DECREE #209, ON 25 NOVEMBER, 1999

Art. 101. Department “State Administration”:

- 1) Develops projects for the implementation of government strategy for the formation of a modern administrative system of the Republic of Bulgaria;
- 2) Analyses the organizational status of executive power administrations, of staff and their qualifications and of administrative services;
- 3) Supports the State Administrative Commission of the Cabinet in the application of the Civil Service Act and in the development of the normative order for a state institution;
- 4) Participates in the development of projects of normative acts and prepares opinions on the projects of acts presented by the Cabinet in connection with the administrative bodies and their personnel;
- 5) Maintains an electronic Register of administrative bodies;
- 6) Analyses working methods and procedures in administrations and develops project programs for their optimization and upgrade;
- 7) Provides methodology for the implementation human resources management policy in the executive power system;
- 8) Develops project programs for improvement of the professional qualification of state officials, analyses and assesses the necessities of additional human resources in administration, analyses the pension system and social care or administration personnel;
- 9) Develops suggestions for a general system for payment of administration personnel;
- 10) Develops programs for administrative co-operation.

