

## Chapter 2

# Central Mechanisms for Policy Formulation and Coordination

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*“A government will not endure long if the administration of it remains on the shoulders of a single individual; it is well, then, to confide this to the charge of the many, for thus it will be sustained by the many.”*

—Nicoló Macchiavelli, *Discourses on the First Ten Books of Titus Livius*, I.ix

## INTRODUCTION

In a well-known metaphor, central mechanisms for policy coordination and implementation can be compared to the brain or central nervous system of government. At some levels, the analogy is an imperfect one. Remove the head in any advanced organism and it will die immediately, whereas administrative decapitation would merely result in varying degrees of service degradation, at least in the short run. The German post office continued to deliver the mail even amid the ruins of Hitler’s Reich.

But in other ways, the metaphor is highly appropriate. The nervous system is essential for coordinating motion and for regulating various dimensions of human behavior. When it goes wrong, the result can be disconnected, uncoordinated action. Furthermore, recent research indicates that the brain is a highly resilient organ capable of rerouting neural networks in a variety of patterns as required. In a similar fashion, governments have found many different means of coordinating their activities. While certain principles are common to more successful mechanisms for policy formulation and coordination, their concrete manifestation in organizational structures and procedures varies significantly both between countries and within countries over time.

In many countries with a parliamentary system, particularly those that come from a European or Commonwealth tradition, the cabinet or

council of ministers plays the central role in policy formulation and coordination. In some countries, the two terms are used interchangeably. In others, the cabinet consists of the more influential ministers, and is thus a subgroup of the council of ministers. In this chapter, and throughout this book, we will use the term cabinet to refer to the highest decision-making body of government—whether it is composed of all ministers or of a subgroup. In cabinet systems, the principle of collective responsibility typically applies, in which all government ministers are pledged to support a decision collectively arrived at or to resign their posts. The work of the cabinet has typically been supported by a cabinet office or chancellery, operating either as a separate, stand-alone entity or in conjunction with the prime minister's office.

Presidential systems display greater flexibility than parliamentary systems. Typically, in countries such as the United States (US), the cabinet is a fairly weak body and most decision making is done either bilaterally between the president and his ministers (secretaries) or in trilateral arrangements between the president, the secretary concerned, and senior congressional figures. The US has found it necessary to evolve cabinet-like arrangements to coordinate policy in the area of national security and, more recently, economic policy. The French system relies heavily on the General Secretariat of Government (*Secrétariat Général du Gouvernement*).

As discussed below, centrally-planned systems have also typically relied on a range of collective mechanisms, such as politburos, juntas, and supreme councils, to formulate, coordinate, and implement policy decisions. Their work has in turn often been supported by secretariats, such as the central committee of the Communist Party and its apparat.

Deliberative bodies at the apex of political life have existed for centuries if not millennia; indeed, their roots could arguably be traced back to the councils of elders often found in traditional hunter-gatherer societies. However, the modern cabinet form of government emerged in Europe in the 19<sup>th</sup> century, from the wish to reconcile monarchical rule with emerging pressures for popular sovereignty. It was then exported by European colonial powers—Great Britain in particular—to Africa, South Asia, East Asia, and the Pacific.

The current geographic distribution of cabinet systems reflects this historical legacy. A survey of 182 countries reveals that about two thirds could be characterized as having cabinet-like forms of government, while

almost one half had governments that were strongly cabinet-like.<sup>2</sup> The highest concentration of cabinet-like forms of government is found in South Asia (100 percent) and the Organisation for Economic Co-operation and Development (OECD) countries (90 percent). The lowest concentration can be found in the Middle East and North Africa (21 percent), followed by Latin America (48 percent). In the middle are sub-Saharan Africa (78 percent), East Asia and the Pacific (70 percent), and Europe and Central Asia (70 percent).

As noted, for ease of discussion, the term “cabinet” will be used as a shorthand reference to the most senior body for collective decision making within government, and cabinet office as the secretariat function for this body. It must be noted, however, that such use covers a multiplicity of deliberative decision-making arrangements and of the institutions that directly support their work.

## THE GUIDING PRINCIPLES OF POLICY FORMULATION

The fundamental objective of the policy formulation apparatus is to ensure high-quality decision making by the senior leadership. How does one measure the quality of decision making? Certain categories of decisions can be easily defined as “low quality”. Among these are decisions that are illegal, highly unrealistic, clearly unaffordable, or so flawed and unpopular that they are drastically modified or revoked shortly after they are declared. Box 2.1 lists a set of common problems in policy coordination. Beyond these obvious cases, it is difficult to assess the quality of decision making. Over the long run, broader outcomes of public sector performance, such as robust economic growth, increased foreign direct investment, a stable currency, a sustainable budget deficit, or improving social indicators, can serve as rough proxies. But all of the typical problems of performance measurement apply, including the role of intervening variables and the difficulty of establishing causal links. Case studies can shed light on the quality of individual decisions, but are hard to generalize. Because it is difficult to measure the quality of policy decisions, discussion of effective decision making tends to be dominated by a discussion of principles—how decisions should be arrived at, and what steps are necessary to put these principles into practice.

Four particularly important principles emerge from the literature on cabinet decision making: *discipline, transparency, stability, and structured choice*. By the principle of disciplined decision making, decisions should be

financially realistic, consistent, and capable of being implemented. While this principle may appear self-evident, in practice it is frequently flouted. In many countries, decisions are taken without an adequate consideration of their cost implications particularly their downstream burden on the recurrent budget. A study of two African nations, for example, revealed that over two thirds of cabinet decisions were never implemented—a clear sign that the process was producing bad quality decisions and was in need of serious restructuring.<sup>3</sup>

Stability in decision making is important as well. Erratic policy has been shown to be a major obstacle to promote investment and economic activity.

It is equally important that cabinet processes be transparent. The deliberations themselves are normally confidential; cabinet meetings are limited to ministers only or their designated alternates; the record of cabinet meetings contains only the conclusions with no hint at the underlying deliberations; and the minutes themselves have limited circulation. However, the *process* of bringing issues before the cabinet should be clearly understood and rigorously upheld; otherwise, powerful ministers will make “end runs” around the system to advance their own political or ministerial agendas at the expense of the whole. A rigorous process helps to reassure all ministries that if they play by the rules their concerns will receive cabinet attention.

**Box 2.1**  
**Common Problems in Policy**  
**Coordination**

- Failure to set major policy priorities, to make tough choices between conflicting objectives, or to translate these priorities into concrete operational decisions, most typically through the budget process
- A policy vacuum, due to discontinuity in government or weak and poorly articulated policy platforms
- Lack of trust between senior policymakers, leading to frequent “end runs” around formal decision structures
- Unclear organizational roles or conflicting agendas among line ministries, or both, combined with a failure to consult all ministries with a stake in a particular decision
- Poorly drafted and inadequately costed cabinet submissions, particularly with regard to downstream expenditures
- Presence of parallel, and often invisible and unaccountable, groups influencing policy from outside the formal government

A final principle of well-functioning cabinet systems is that of “structured choice.” Many decisions that flow to any cabinet are routine, such as endorsing relatively modest changes in a department’s staffing or approving diplomatic or military appointments. Often, such business can

be dispensed with rapidly. Yet in many countries, a process of steady accretion has occurred that results in a host of trivial matters being brought before the cabinet for decision. (In one Southeast Asian country, for example, a decision to relocate a single public toilet ended up being presented to the cabinet.) Cabinet offices must structure cabinet procedures, and the underlying legal and administrative regulations that feed into them, in such a fashion as to ensure that the cabinet is not swamped by trivial or inconsequential matters to the detriment of more serious business.

## CRITICAL FUNCTIONS

Turning from broader principles to the specific tasks to be performed, a well-functioning policy formulation and consolidation mechanism should perform at least five tasks effectively.<sup>4</sup> These are: (i) providing intelligence and early warning regarding the business likely to require decision; (ii) ensuring that all agencies and departments with a stake in a given issue are adequately consulted; (iii) providing supporting analysis and the careful consideration of options; (iv) recording and disseminating decisions; and (v) monitoring implementation and follow-through. Each will be discussed in turn.

The first task is to ensure that all participants in the policy-making process have adequate time to review items on the agenda. In many well-functioning systems, the agenda is typically circulated a specified period in advance (such as 48 hours). In addition, some cabinet offices, e.g. in the United Kingdom (UK), keep advance agendas to monitor workflow, avoid duplication and exploit commonalities between issues on the cabinet agenda, and ensure that the agenda is consistent with upcoming domestic and international events.

The second major task is to ensure that all agencies or departments with a stake in a particular issue are adequately consulted in advance. This allows the policy-making group to benefit from relevant sectoral expertise, and helps to improve consistency and to avoid overlaps and duplication. Consultation also improves “ownership” during implementation. One should avoid taking an overly mechanistic view of participation for, particularly in times of grave national crisis, there is a natural tendency to narrow the circle of decision making to facilitate consensus and prevent leaks. There may also be times when, for strategic reasons, certain ministries or departments are consulted later than others. However, as a general rule, it is important for purposes of information and long-term sustainability to include all relevant players in the deliberations. (See chapter 14 for a discussion of participation in general.)

Many governments have found that policy advice is often sharpened by contestability or the careful evaluation of alternatives. This function is often performed by central mechanisms for policy coordination, provided that they have the requisite capability. However, in a number of governments, this function is placed within the line ministries. Under these circumstances, the goal of the cabinet office is to manage the policy process so this analysis is conducted properly, and not necessarily to perform the analysis itself. This is particularly important with reference to the adequate costing of proposals.

The fourth essential task is recording and disseminating the policy decisions. A variety of approaches are used in this area. Under the principle of collective responsibility, in many Westminster cabinet systems, only the decisions are circulated. Some countries may circulate both the decisions and a brief summary of the arguments in favor. Other countries provide a fuller treatment of the discussion behind the decision.

The final task is that of monitoring implementation. In many developing countries and some developed countries, the passage of a cabinet resolution is no guarantee that a given decision will be implemented, particularly when the ministry concerned is hesitant to enforce it. It is therefore helpful to monitor the follow-through of individual cabinet decisions, at least on a selective basis.

## A MULTIPLICITY OF PRACTICES<sup>5</sup>

The principles and functions outlined above are essential for effective policy formulation. The specific ways in which they are translated into bureaucratic practice may vary significantly. There are many different routes to effective policy formulation and coordination, none of which is inherently superior to the others. The practical advantages and disadvantages depend largely on country-specific circumstances and norms.

As noted, in parliamentary systems, mechanisms to coordinate policy include the cabinet itself; cabinet committees and subcommittees tasked with coordinating policy in specific areas on behalf of the cabinet; and a secretariat charged with administering cabinet operations. (Depending on the country, the secretariat may also be responsible for providing policy advice.) These are discussed below in turn.

## Cabinet

The size of cabinets can vary significantly both between countries and within countries over time. After several decades of expansion during the postwar period, as governments took on a variety of new tasks ranging from environmental management to consumer protection, OECD countries in the past decade have generally reduced the number of cabinet ministers—even though this often means having to overcome significant political resistance. (See chapter 3 for the number of ministries.)

In determining the appropriate cabinet size, there are fundamental trade-offs between efficiency and manageability, on the one hand, and comprehensiveness and representation, on the other. A small size may ensure quicker decision making, but may run into problems with lack of ownership and inadequate access to information. At the other extreme, some Indian states suffering from chronic political instability have used the creation of cabinet positions to help keep coalitions together. The resulting expanded cabinet, which numbers over 90 ministers, has destroyed the notion of the cabinet as a compact and cohesive policy-making body. As noted at the outset, cabinet may consist of a subgroup of ministers. Thus, some countries, such as Australia and the UK, have attempted to address this problem by creating two tiers of ministers, cabinet ministers and noncabinet ministers.

The composition of the cabinet and cabinet meetings can vary significantly. In many Commonwealth countries, the cabinet is an assembly of senior politicians, whereas countries such as France and Spain have a tradition of appointing at least some technocrats. Some countries appoint only parliamentarians; others prohibit cabinet members from belonging to parliament. In some countries, junior ministers can be called upon to replace their minister if the latter is unable to attend; in others only the designated principal may attend.

The frequency of cabinet meetings can also vary. Most countries hold weekly cabinet meetings. Many countries hold additional meetings as well. Sweden holds up to 20 meetings a month; Norway 12; and in the Netherlands, meetings to set the annual budget may be held three or four times a week. In countries such as France and Norway, the frequency of meeting is fixed by statute. When the head of government enjoys some discretion over the setting of cabinet meetings, there can be significant variation depending on personality. In the UK, Prime Minister Wilson held 59 cabinet meetings a year; Prime Minister Thatcher only 35.

Cabinet meetings may be long (as in Ireland and the Netherlands) or short (as in the UK). However, taking frequency and duration together, at one end of the spectrum Dutch, Norwegian, and Swedish ministers spend up to 40 hours a month in cabinet meetings, whereas at the other end Belgian, French, Italian, and UK cabinet meetings take up as little as eight hours per month. The average appears to be around 12 to 15 hours per month.

Rules generally define the business that goes before cabinet, but these rules are often imprecise or incomplete. (For example, the Norwegian constitution stipulates that all “major issues” must be placed on the cabinet agenda.) In the UK, the matters that should go to the cabinet or its committees are questions that significantly engage the collective responsibility of government because they raise major issues of policy or because they are of critical public importance, as well as questions on which there is unresolved argument between departments. Only in a small number of countries are the rules precise and constraining. In Finland, for example, almost every government decision requires the formal blessing of the cabinet. In the Netherlands, all items requiring cabinet approval are stated in the rules.

An average cabinet will deal with 500-700 items per year (although this number rises to 4,000-5,000 in Finland). As noted earlier, most decisions are routine in nature. Policy decisions typically arise from within the sector ministries, and the role of the cabinet is that of choosing among the policy choices presented to it. In this context, cabinet *decides* policy but does not *make* policy. In well-functioning systems, policy making involves both the specific ministry concerned and the collective decision-making government body.

### **Cabinet Committees**

In the light of the growing complexity of government decision making, the work of cabinets and councils of ministers is increasingly being supported by a network of cabinet committees and subcommittees, whose numbers have significantly expanded in OECD countries over the last two decades (see box 2.2). These committees serve a variety of purposes, but are typically used to identify contending views and interests and resolve them before the formal cabinet submission. They can also be used to develop policy recommendations, coordinate these recommendations, or oversee their implementation. The committees and subcommittees may be formal or



informal, permanent or ad hoc, with the latter typically being constituted to address one-off issues.

Cabinet committees typically have a more diverse membership than the cabinet itself, particularly with regard to informal or ad hoc committees. In addition to ministers or their designated representatives, such group may involve technocrats recruited for their substantive expertise, or in some cases may even involve individuals from outside the government.

Formal cabinet committees are often drawn from a particular subset of ministers with cross-cutting or overlapping portfolios. Under President Ramos, for example, the Philippines utilized eight cabinet “clusters”— including agro-industrial development, macroeconomy and finance, human resource and development, political affairs and national security, and water resources management—to enhance interagency coordination and expedite the implementation of major interagency programs and projects. These cabinet clusters met weekly or as often as necessary, and senior officials at the undersecretary or assistant secretary level were allowed to represent the secretary in cluster meetings.

### **Box 2.2 Cabinet Committees**

In Western Europe, the average number of cabinet committees has significantly increased over the last decades. These committees identify contending views and interests and attempt to resolve them before the formal decision process. Committee decisions are ratified by the full cabinet, even if ratification is all but automatic. This is particularly significant in the case of the “kitchen” cabinet, an inner core of the most powerful ministers, including the head of government. These may meet to deal with a specific issue or may be permanent and general in scope.

In central and eastern Europe, there are signs that the number of cabinet committees is increasing. All cabinet committees operate with the authority of the cabinet, and the government must formally ratify their decisions.

Most countries use a combination of standing and ad hoc committees, with the exact mix varying over time. In the late 1990s, Australia had five standing committees addressing employment, security, expenditure review, parliamentary business, and legislation, and an additional ad hoc committee addressing violence. Four or five ministers belonged to each of the standing committees, which were chaired by the prime minister. In theory, issues must be discussed at cabinet committee before going to the full cabinet. However, in practice routine matters

are dealt with in committees and go to the cabinet merely for endorsement, while the more interesting items go straight to the cabinet.

Governments vary widely in their propensity to refer disagreements to a cabinet committee or address it within the full cabinet. One study of OECD cabinet governments noted that, on the average, slightly more than half of all disagreements are referred to cabinet committees for resolution. Practice varies, however. Virtually all controversial decisions are routed to cabinet committees in Belgium and France, and almost none in the Netherlands (which contributes to explaining the longer duration of full cabinet meetings in that country).

### **Secretariats**

The office that supports the cabinet has a particular role in ensuring that the rules of debate are credible and efficient, and that there is a realistic prospect of agreement. The secretariat must be in a position to ensure that all major decisions are routed to the cabinet considerations. It must identify and withhold from the cabinet those items that are not legal, that raise obvious policy inconsistencies with prior decisions, or that have not been adequately vetted through the precabinet screening process. (In France, the legality of a proposal must be vetted by the Council of State before being presented to cabinet.) It must clarify the specific issues at stake and the decisions to be taken and provide the ministers with adequate time to consider them. It must then record the decisions and disseminate them to the relevant agencies.

Cabinet secretariats differ along a number of important dimensions. Many are associated with the office of the president or prime minister; others serve the cabinet as a collectivity. Some have responsibility for formulating policy proposals independently from the line departments, or of offering alternative policy recommendations. Others simply manage the process. Some are staffed exclusively or primarily by senior civil servants; others by political appointees; still others by some combination thereof. Their size differs significantly depending on the nature of the function they provide.

Singapore's Cabinet Office is at one extreme. The purpose of the office is only to provide secretarial and administrative support to the cabinet, and it plays no policy role. It is staffed entirely by civil servants, 15 in all, and its work entails receiving and checking the papers to be placed before

the Cabinet, arranging for their distribution, recording the proceedings of Cabinet meetings, arranging for the attendance of officers who may need to appear before the Cabinet, relaying decisions of the Cabinet to the bodies responsible for implementing them, and performing other functions required by the prime minister. The Cabinet itself typically initiates various policy reviews or changes, which are then handed over to professional staff in the relevant ministry for development.

The British system falls in the middle, both in terms of size and operations. It consists of a staff of about 100 under the Prime Minister's Office and another 100 under the Cabinet Office. The prime minister's policy staff is political and consists of only one civil servant and 12 advisers "shadowing" the departments, each responsible for briefing the prime minister in a major area of policy. The goal of the policy unit is to provide proactive advice, to ensure that policy priorities do not evaporate under the day-to-day demands of office, and to serve as an extension of the prime minister in questioning the submissions of various departments. (Occasionally, the unit will also initiate its own proposals.)

The British Cabinet Office is headed by the secretary of the Cabinet. Its work is organized into three areas: (i) defense and overseas affairs, (ii) European affairs, and (iii) domestic policy. It is primarily tasked with ensuring the smooth functioning of the Cabinet, as well as its committees and subcommittees. It prepares the cabinet agenda, briefs the chairman, draws up the minutes, and circulates the conclusions. Its briefing role offers the most scope for influencing policy. In a typical briefing, the chairman receives technical advice on the correct handling of the meeting, the lineup of positions and the likely supporters or opponents of a particular proposal, and ways of resolving the issues. The Cabinet Secretariat is staffed by civil servants on loan from other departments, typically for a secondment period of two years.

At the other extreme is Russia (discussed later). However, the largest and most powerful central body is probably the Office of the President in the US. For most of American history, the office was small and consisted only of the president and a personal assistant. It was not until the 20<sup>th</sup> century, particularly under the presidency of Franklin Roosevelt and his successors that the White House staff expanded to its present size of nearly 4,000.

In the US, the President's Cabinet meets infrequently and has little real power as a collective body. The individual departments are responsible for policy making in their areas of competence. However, depending on the energy and drive of the President's chief of staff and the national security adviser, a great deal of policy-making authority can be centralized in the White House. In any case, White House staff are responsible for all senior appointments down to three or four levels in the bureaucracy, and the Office of Management and Budget consolidates budget proposals from the line departments and presents them to Congress. Thus, the White House has control over both personnel and the budget.

Countervailing powers also exist. The analytic infrastructure of Congress—including individual legislative staffs, committee staffs, the Congressional Budget Office, and the Congressional Research Service, among others—is far larger than any comparable legislative support system elsewhere. This provides Congress with the ability to effectively challenge policies adopted by the executive branch. Furthermore, the powers given to Congress by the Constitution in the areas of budget and of approving senior appointments provide further contestability.

### **The Role of Elite Agencies in the Policy Process**

In many countries, certain central ministries have acted as elite agencies to facilitate interministerial coordination in both the formulation and the implementation of policy. Normally, they tend to be the entities in charge of the budget and planning. The role of the finance ministry has been profound in policy coordination because of its decisive say in matters affecting taxation, expenditure, public services, and especially expenditure cuts in times of austerity. This role has been enhanced in developing countries undergoing structural adjustment, because of the need for coordinated macroeconomic and fiscal policies.

The Ministry of Finance in Japan has controlled over the years the budget process and fiscal policy, and the Ministry of International Trade and Industry influences the investment patterns throughout the economy. The Economic Planning Board is considered a superministry in the Republic of Korea, with control over both budget and planning. In Thailand, the Ministry of Finance, the Budget Bureau in the Prime Minister's office, the Central Bank, and the National Economic and Social Development Board (the alleged "gang of four") consult each other in budget preparation, inflation control, and economic policy. In Malaysia, an important role is

played by the Prime Minister's Department. The Economic Planning Unit within this department evaluates the impact of government policies and the quality of life in the economy. The Implementation and Coordination Unit monitors the implementation of program components and ensures that government policies and strategies are in line with the objectives of the national development policy and the Malaysian plan.

### **The Importance of Leadership Style**

Finally, the personality of the chief executive matters greatly. Even in countries with well-established cabinet procedures, the style of the leader can have a major impact on both formal and informal flows of information and decision making. In his study of foreign policy decision making in the US, for example, Alexander George identified three broad styles of presidential decision making and several subvariants that operated within the formal policy structure, ranging from the competitive to the collegial and the formalistic.<sup>6</sup>

Case studies from countries as diverse as Australia, Malaysia, Philippines, Russia, and the UK have also underscored the importance of personal style. Some leaders are more authoritarian in their decision making; others use more collegial and consensus-based approaches. Some welcome freewheeling debate; others prefer more structured exchanges; some are proactive, reaching down into the bureaucracy to gather information and advice; others are more reactive, relying on formal channels and reporting relationships to bring items to their attention. And so on. Even with identical organizational structures, these different personal styles can significantly alter the rules of the game under which policy making takes place.

### **OTHER MECHANISMS FOR POLICY COORDINATION**

As discussed, experience shows that central mechanisms for policy formulation and coordination play an essential role in ensuring the consistency, transparency, and predictability of government policy. However, they do not by themselves ensure effective policy coordination. Much of the day-to-day operational coordination takes place at lower levels of the bureaucracy, and for this reason governments have devised a wide variety of mechanisms for advancing both formal and informal collaboration. In a number of countries, particularly those in East Asia, the vast majority of policy issues are resolved through such mechanisms, and the cabinet is used primarily to ratify consensus arrangements that have been made at lower levels.

Formal mechanisms below cabinet level include senior task forces or review committees, as well as interdepartmental teams or working groups. These groups can stretch from the ministerial level down to the working level; can be standing committees with an indefinite life span or they can operate with a sunset provision; can deal with a wide range of issues or focus on a particular problem; and can be created by law, administrative orders, or simple administrative expediency. Other less direct mechanisms for coordination include speeches of senior officials, newsletters and other publications, and, more recently, government Internet web pages.

Spurred by the increasing use of interdepartmental working groups in the private sector, a growing body of literature is beginning to assess the prerequisites for successful collaboration.<sup>7</sup> Successful teams and working groups typically require strong endorsement from senior management, and need to translate their common purpose into performance goals. They often involve a limited number of members (typically fewer than 25) with an appropriate mix of expertise, problem solving, and interpersonal skills. The intent is to develop a sense of mutual accountability, reduce organizational or departmental bias, and ensure that the team members will work to implement a collective solution within their individual administrative spheres of competence.

Many countries recognize the critical importance of informal networks in advancing collaboration and coordination. Sometimes, these networks develop naturally from bonds of ethnicity, religion, education, caste, or marriage—with obvious disadvantages as well as advantages. Frequently, governments have sought to foster informal channels of communication through the rotation or secondment of personnel to central departments or other line agencies for a specific period of time.

In many Commonwealth countries, the majority of cabinet office staff are seconded from line departments on the assumption that the cabinet office will benefit from their specific sectoral expertise and knowledge of how their agency works; the ministry will benefit from having one of its own on the “inside”; and the staff will benefit by gaining a broader and less parochial perspective on the functioning of government. Similarly, in former communist countries, senior bureaucrats were typically rotated between line ministries and the central committee. This is also true of the civil service in much of South Asia. India in particular has devised elaborate systems for the training and rotation of staff in leading cadres (such as the Indian Administrative Service) to ensure that central government staff have close relations with their

batch mates in other ministries and departments and are knowledgeable about operations at the district level (see chapter 12).

Coordination of policy within large ministries is also critical. To enhance cooperation among all the organizations reporting to a given minister—departments, service agencies, administrative tribunals, etc.—Canada has developed the concept of portfolio management. Its purpose is to improve coherence in policy formulation and decision processes within and across ministries, provide advice on legislative reforms, exchange information and experience, and work on horizontal issues. This approach is especially suitable for huge ministries with a large span of control.

Policy coordination mechanisms need not be confined strictly to executive departments. In many countries, ministries have developed congressional or parliamentary affairs offices tasked with maintaining good relations with the legislature, soliciting the views of influential lawmakers on matters of relevance to the department, and gaining their backing for priority policies and initiatives. The Philippines, for example, created the Legislative-Executive Development Advisory Council (LEDAC) in 1992 to serve as an advisory and consultative mechanism to ensure consistency in coordinating executive development planning and congressional budgeting. In India, members of parliament have consultative committees attached to various ministries. Party caucuses and coordination committees can also play an important role in coalition governments.

Indeed, policy formulation and coordination should not be confined to government. Many East Asian economies, for example, have used mechanisms such as business/government/labor councils to facilitate the flow of information between the public and private sectors, solicit the views of business and the unions on major policy initiatives, and receive input on how to facilitate investment and economic activity. New Zealand's efforts to enhance the contestability of policy advice has led to the creation of over 100 ministerial policy advisory bodies drawn from all sections of the community. In the US and other OECD countries, independent regulatory commissions often hold public hearings surrounding major policy initiatives, such as a proposed rate hike. In developing countries, these mechanisms are constrained by scarcity of advisors and participants with the requisite expertise, but the importance of dialogue mechanisms is even more important than in developed economies.

## A TALE OF TWO COUNTRIES

The importance of the above functions and institutions is illustrated clearly by the contrast between Hungary and Russia. Even though Hungary and Russia are not representative of OECD or of developing countries, they faced the same challenge for evolving new arrangements for policy formulation, and illustrate the general implications of adopting different solutions to that challenges. For most of the postwar period, these states utilized virtually identical arrangements for policy formulation and coordination. However, after 1989 they pursued very different paths.

Under the communist regimes that ruled central and eastern Europe and the former Soviet Union, the Party's Politburo and central committee provided a generally effective means of formulating, coordinating, and implementing government policies.<sup>8</sup> To be sure, the procedures for decision making were not perfect. They were slow, cumbersome, and excessively centralized. Government ministries played an entirely instrumental role in implementing decisions that were made elsewhere, and relatively trivial issues (such as the amount of reimbursement teachers should receive for travel) were routinely "kicked upstairs" for senior party officials to decide. Decision-making processes were opaque, and there was minimal capacity for sophisticated analysis of the expenditure implications of policy decisions. Considerable discrepancies existed between the official and unofficial rules of the game.

Nevertheless, there was a clear process and set of institutions for bringing issues to the attention of senior leadership, for evaluating them, resolving them, and communicating the resulting decision to the organs responsible for their implementation. In all Eastern European and FSU countries, the Politburo met regularly to decide issues that were often (but not always) vetted beforehand by the central committee. The principle of collegiality ensured that different viewpoints would at least receive a hearing before a particular course of action was adopted. The circulation of personnel between the various departments of the central committee and the line ministries for which they were responsible facilitated the flow of information both upward and downward. In the wake of the events of 1989 and 1991, the abolition of the politburo and the central committee removed the main mechanism for policy coordination in these countries, forcing a search for alternatives.



In the case of Hungary, after a period of trial and error, the Hungarians settled on a cabinet system with two major tiers of decision making. The Administrative State Secretaries (the highest civil service tier, roughly analogous to the Permanent Secretary position in the UK) meets on Tuesdays to vet initial proposals for cabinet. Regular cabinet meetings to approve the relevant decisions and decrees take place on Thursdays.

The Hungarian Government has taken a number of steps to regularize and streamline cabinet procedures. The size of the Cabinet itself was reduced from 19 members in 1993 to 15 members in 1996. The duration of cabinet meetings has been dramatically shortened. Initially, meetings had no structured order, and ministers would present material that was relevant to their particular area without prior coordination or consultation. This was changed to a fixed agenda, in which the Cabinet considers only issues that have been carefully vetted beforehand. About two thirds of these issues are routine and dispensed within a couple of minutes; the rest require more detailed consideration. The work of the cabinet is supported by the Prime Minister's Office, which has a staff of about 500 and is charged with assisting the prime minister in providing information and advice and coordinating the activities of the Government.

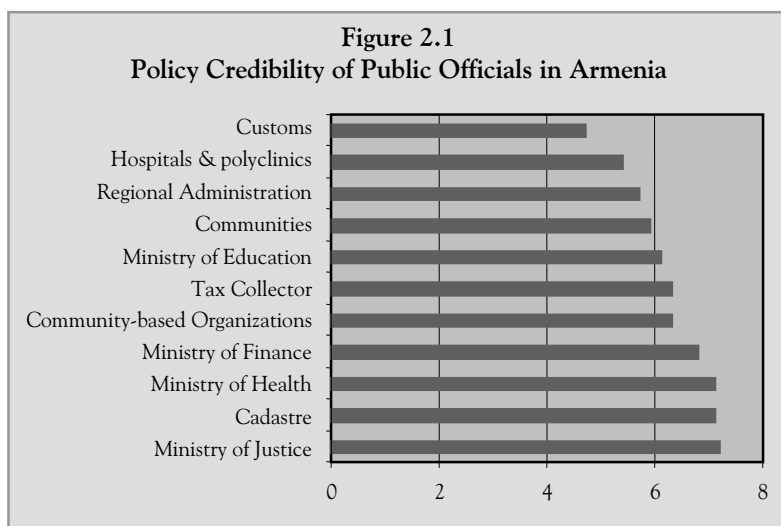
The Hungarian system is not without its flaws, but has contributed to a relative stability in policy that has contributed to enabling Hungary to garner a disproportionate share of foreign investment in central and eastern Europe in the 1990s and enjoy annual rates of domestic investment growth of around 7 percent. Hungary has also been able to successfully pursue a host of important national goals, such as membership in the North Atlantic Treaty Organization (NATO) and the OECD and first-tier status in European Union (EU) accession. There are multiple reasons for this success. Yet, relative policy stability, and the institutional arrangements that support it, has clearly made a significant contribution.

In Russia, by contrast, although the situation is evolving, no effective and widely agreed upon mechanism for policy evaluation and decision making has existed during the 1990s. When they initially came to power in the wake of the former Soviet Union's collapse, President Yeltsin and his associates confronted a hostile parliament, a suspicious government bureaucracy, and powerful party networks still controlling many regions. Their response was to attempt to establish a strong presidential apparatus, to rule the country without having to rely on existing ministerial structures.

Rather than creating a single, dominant presidency, however, this effort resulted in the establishment of several rival centers of power. Parliament strongly resisted efforts to centralize legislative power in the Office of the President, resulting in a “war of laws” in which both institutions issued conflicting decrees. Government ministries under the prime minister resented presidential meddling in their operations. These dynamics were further complicated by the tremendous expansion in presidential staff, estimated at up to 27,000, along with the large duplication in missions and structures. The frequent appointment of supporters to various positions with vague mandates and uncertain responsibilities, and the lack of mechanisms for resolving disagreements, resulted in considerable uncertainty over policy and nearly constant internecine warfare between and within various branches of government.

It is undoubtedly true that the sheer size, ethnic composition, and political instability of Russia made the challenge of policy coordination much more complicated than in Hungary. Moreover, Russia lacked the prevailing social consensus regarding basic forms of political and economic organization and the possibility of membership in the European Union that was widely shared across the political spectrum in Hungary and served as a compass for that country’s reform effort. Nevertheless, Russia’s failure to develop effective mechanisms for policy formulation and coordination has intensified the rivalry between different branches of government, resulting in a cacophony of voices, decrees, and orders at the top, coupled with predatory bureaucratic behavior at many points lower down in the system.

The Hungarian and Russian examples are not isolated cases. Empirical research suggests that policy coherence and consistency make a contribution toward more efficient government. For example, in Armenia a survey showed that the degree of public officials’ commitment to policy implementation depends on whether the policies are frequently changed or contradicted; whether they are well communicated; and whether political micro management undermines policy implementation.



In turn, staff perception of the quality and consistency of policy is an important influence on civil servants' performance. Convincing staff of the consistency of policies is also very strongly associated with apparent reductions in corruption.

The impact of policy inconsistency on public performance mirrors the well-known private concern with unpredictable laws and policies. Erratic policy is known to be a deterrent to investment and private-sector performance. As it turns out, it is also an obstacle to public-sector performance.

## KEY POINTS AND DIRECTIONS OF IMPROVEMENT

### Key Points

The policy formulation and coordination function is fundamental for the smooth running of government. Effective mechanisms for policy formulation and coordination are closely correlated with a more predictable policy framework, better regulation, lower corruption, and a stronger rule of law. These factors, in turn, have an important impact on entrepreneurship, investment, and administrative effectiveness—all of which require clear guidelines and a sense of direction from the top.

Central policy formulation and coordination mechanisms take a different form in parliamentary and presidential systems of government—

more structured and collective in the former, more flexible and dependent on leader's personality in the latter. In all cases, however, they are intended to perform five basic tasks: (i) provide adequate information and early notice about impending policy issues; (ii) ensure prior consultation of all relevant government stakeholders; (iii) give supporting analysis and spell out options; (iv) record and disseminate policy decisions; and (v) monitor implementation of the decisions.

For the good conduct of the above tasks, four guiding principles emerge from the international experience: (i) discipline, in order to exclude policy decisions that cannot be financed or implemented; (ii) transparency of decision-making processes, while preserving the confidentiality needed for frank debate; (iii) predictability of policy direction, avoiding frequent reversals of policy decisions; and (iv) structured choice, i.e., an orderly process that brings to the attention of policymakers only important issues, and screens out trivial matters.

A strong and effective secretariat is therefore a must for effective policy coordination. In presidential systems, the secretariat function is normally placed in the office of the President. In parliamentary systems, it can be either in the Prime Minister's Office or in a cabinet secretariat, which serves the cabinet (or council of ministries) as a collective group. Policy secretariats can vary in size and function. The Singapore Cabinet Office with 15 civil servants is at one extreme, with the Office of the US President with over 4,000 staff at the other extreme, and the British Cabinet Office and Prime Minister's Office in the middle, with about 200 staff combined. However, in all cases the office must at least assure an orderly flow of traffic and facilitate the decision-making process.

Finally, for the policy formulation and coordination process to work well, in addition to a well-functioning central office there must be good cooperation at all levels of the bureaucracy. This cooperation requires both formal mechanisms such as committees and interdepartmental working groups, and informal networks of communication and cooperation among civil servants, which the government should encourage and support.

### **Directions of Improvement**

The first requirement of an effective administrative apparatus is to define and communicate to it clear policy directives and decisions. Therefore, there is a need for institutions capable of producing decisions that are

consistent, affordable, and capable of being implemented. There is also a need to improve transparency and predictability in the policy process, so that powerful individual ministers do not short-circuit the system and undermine collective goals in pursuit of their parochial interests.

Improvements in cabinet systems and related organizations should be geared to better performance on five basic tasks: (i) provide intelligence and early warning regarding the policy items likely to come before the cabinet; (ii) ensure that all agencies and ministries with a stake in a given issue are adequately consulted; (iii) provide supporting analysis and the careful consideration of options; (iv) record and disseminate decisions; and (v) monitor implementation and follow-through.

Among the key principles of policy formulation, probably the least observed in developing countries is the principle of discipline. Promulgating policies that are “dead on arrival” because they are unrealistic devalues the policy-making process and reduces the impact of leadership. It is essential, therefore, to introduce concrete provisions for greater discipline in policy formulation, as for example a requirement that no decision can be presented for cabinet approval unless it is fully costed and is consistent with other legislation and rules.

Experience demonstrates that there are many routes to more effective policy coordination. Pronounced differences exist not only between countries but within the same country over time. These differences matter in terms of the speed and cost-effectiveness with which decisions are reached, as well as the degree of ownership among various ministries and departments responsible for implementing those decisions. But there is clearly no one right answer to the question of how policy-making institutions should be improved, provided that the improvements focus on the five tasks noted above. Generally, however, the size of the decision-making group can be small and hence its decision-making effectiveness greater, to the extent that there are mechanisms to assure broad consultation with other government entities and the public.

It is important, therefore, not to look at central policy formulation mechanisms in a vacuum. Often, their success is supported by additional coordinating mechanisms. These range from cabinet subcommittees to interministerial task forces and working groups to congressional liaison offices and business-government coordinating councils, and can perform a useful complementary role. Also very important is for governments to find ways

to encourage informal cooperation at all levels of administration, and remove obstacles to the free flow of information within government.

These considerations are of particular relevance for donor agencies, which have recently begun to assist the effectiveness of central decision-making mechanisms in developing countries. The resources involved are often very small, but hold significant promise for assisting the efforts of many developing countries to improve the quality of their service delivery, regulatory functions, and public administration in general.

## NOTES

- <sup>1</sup> The authors thank Omer Gokcekus, Steve Knack, and Ranjana Mukherjee for their research assistance with various aspects of this chapter. This chapter relies partly on Beschel (1998), George (1980), and Reilly, et. al. (1998), in addition to the other specific sources mentioned.
- <sup>2</sup> See Nick Manning et al., (1999).
- <sup>3</sup> See Schacter, with Haid and Koenen-Grant (1999); and Koenen-Grant and Garnett (1996).
- <sup>4</sup> These observations are taken from Peter Mountfield (1995).
- <sup>5</sup> This section draws extensively on Nick Manning (1999c). See also SIGMA Center of Government Profiles (<http://www.oecd.org/puma/sigmaweb/acts/cogprofiles/flags.htm>); Kaul (1997); and Reilly, et.al. (1998).
- <sup>6</sup> George (1980), pp. 145–168.
- <sup>7</sup> See especially Katzenbach and Smith (1993); see also Kormanski and Moenter, “The New Model of Team Building: A Technology for Today and Tomorrow,” *The 1987 Annual: Developing Human Resources*; B.R. Tuckman. In this context, teams differ from working groups in that a working group’s performance is a function of what its members do as individuals, whereas a team’s performance includes joint or collective work products and mutual accountability. The observations draw heavily on Katzenbach and Smith’s conclusions.
- <sup>8</sup> For a fuller discussion of this topic, see Beschel Jr. (1997). See also Stephen Fortescue (1995) and Huskey (1995).

## Chapter 3

# Organizational Structure of Central Government

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*“We tend to meet difficult situations by reorganizing, which gives the illusion of progress while only creating confusion and demoralization.”*

— Petronius Arbiter, c. 200 BC

### GROUPING OF FUNCTIONS INTO MINISTRIES

The form of government should follow its function. Chapter 1 dealt with the context of government activity, and its appendix with the nature of the state and of the government, and the types of constitution and political systems. All of these affect the organizational structure of the central government.

The organization of government is not an end in itself, but a means for achieving national objectives. The purpose is to allocate the tasks of government so that they are performed in a manner that is both efficient and economical, with a minimum of duplication and overlapping. It is important to define the areas of authority and responsibility of administrative units, so that they may be properly subject to constitutional and political controls. Sound organization, based on the principle of delegation of authority to ministries, consistent with their competence and responsibility, also encourages flexibility and responsiveness to new policies and developments. Poor organizational structure of ministries is often a major cause of inefficient implementation of government policies (Box 3.1).

A ministry is a primary level grouping of governmental functions, headed by a major political officer known as a minister. In some countries, e.g., the US, such a grouping is called a department. More often, a department is a subdivision of a ministry, and is in turn divided into divisions, branches, and sections, in descending order of hierarchy. In some countries,

the department is known as a bureau, service, or office. Agency normally refers to an entity of government that is attached to ministries and created for special government purposes (Chapter 6).

### **Box 3.1**

#### **Structure of the Ministry of Health and Family Welfare in India**

The health ministry is organized under the health minister into three departments: health, family welfare, and medicine and homeopathy. A permanent secretary heads each department. The department of health is laterally supported by an attached professional organization under the director general of health services. Each department operates hierarchically through successive layers of submission of papers for decision making. Below the secretary are two additional secretaries. Each additional secretary coordinates the work of a number of joint secretaries and one of them also heads a project unit for AIDS control. The joint secretaries in turn supervise the work of several deputy secretaries, and through them a number of undersecretaries and section officers.

The secretary allocates the work among the divisions and higher offices, such as the units for the control of different major diseases, the work relating to government hospitals, medical education, international cooperation, health education and communication, procurement, food and drug standards, medical care of government employees, relations with voluntary agencies, and coordination with the provinces. The director general operates a similar hierarchy of health professionals and administrative staff and renders advice to the minister through the main department. The system is highly centralized and prone to delays at every stage. Having to supervise directly a number of large hospitals and to administer a large scheme for government employees leaves the department little time for basic health policy.

Because of the excessive number of layers of authority, there are few mechanisms for internal coordination among the three departments, or for building linkages on health policy with other social ministries. The operation of the department accordingly tends to become budget- driven.

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*Source: Annual Report of the Ministry of Health and Family Welfare, Government of India. 1999.*

## **Principles of Work Distribution**

There are four principles for distributing the work of government: the *area* covered, the *clients* dealt with, the *process* employed, and the *function* served.



The *areal principle* is reflected in the constitutional or legal arrangement for the division of powers between the central and state/local governments. It is generally not used as a basis for grouping functions into ministries, except in the case of a ministry focused on a specific region for political or development reasons (e.g., the former secretary for Northern Ireland in the United Kingdom [UK]).

The *client principle* applies to certain ministries in some countries charged with the problems of specific client groups, i.e., women, children, or minorities. It is not a general organizational principle. For example, a ministry of social welfare will pay specific attention to the old, the handicapped, poor women, children in vulnerable conditions, and specified minorities. Educational services will be specialized to meet the needs of girls, children not covered by the formal system, those in remote areas, the handicapped, and the mentally ill; industrial development may focus on different types of industries, small and large, export units, foreign investors, and mineral exploitation.

The *process principle* is based on the advantages of concentrating specialized skills and techniques. Examples are ministries set up for public works or water resources or information technology, which are staffed almost exclusively by engineers and professionals. It is more common to find process-based departments are more common in local governments and functional agencies than in central government, since the principle blurs the aims of government action and could create problems of coordination as the scale and complexity of government increases. In central government, it is more common to subordinate process units to a broader functional structure, e.g., locating the information services unit in a ministry of scientific research, as explained below.

The *function (or purpose) principle*, by which government units are organized according to function (e.g., housing, health, defense), has become the dominant principle of organization in most central governments. When grouped according to function or purpose, and the degree to which their outputs and outcomes can be observed (Wilson 1989), government agencies fall under four different types:<sup>1</sup>

- *production organizations*, where both outputs and outcomes can be observed; examples are the internal revenue service, the postal service, and the social security agency;
- *procedural organizations*, where the outputs can be observed but not the outcomes; examples are hospital administration, armed forces during peacetime, and employment agencies;

- *craft organizations*, where outputs are not easily observed, but outcomes can be evaluated. Examples are enforcement and investigative agencies, and various decentralized self-regulating organizations; and
- *coping organizations*, where neither the output nor the outcomes can be observed, e.g., the diplomatic service.

## Principles for Grouping Functions

Within the functional principle, there are four criteria for efficient grouping of tasks: nonfragmentation, nonoverlap, span of control, and homogeneity.

According to the criterion of *nonfragmentation*, all responsibility for a single function should be placed in a single unit. (This is intended to balance the countervailing principle of departmentalization according to clientele.) Nonfragmentation relates both to purpose and to place, the latter coming into play in the case of fragmentation among levels of government and among agencies in the same area. The criterion of nonfragmentation cannot be followed consistently, since unifying responsibility with respect to one function will often lead to fragmentation of responsibility with respect to another.<sup>2</sup> For example, to set up a separate entity to combat drug abuse would cut across other purposes associated with education, law enforcement, public assistance, and health, and lead to the fragmentation of a host of drug abuse programs organized with reference to education, health, and law enforcement. Also, many social problems are so broad that to combine the authority and resources for addressing any one problem (e.g., poverty reduction) in a single agency would logically require rolling the entire government into one administrative unit. Thus, some fragmentation of responsibility among the administrative units is unavoidable.

The criterion of *nonoverlap* implies that no two departments should have the same authority to act in the same circumstances. While jurisdictional fragmentation divides authority, jurisdictional overlap creates redundant authority. Fragmentation makes government ineffective, while overlap makes government wasteful and inefficient.

The criterion of *span of control* involves grouping functions in manageable organizational sizes, and tailoring the workload to the capacities of the minister and his chief officials. Ideally, managerial coordination requires a systematic grouping of functions in roughly equal size blocks, although political and functional considerations are intrinsically opposed to such tidy patterns.

Finally, the criterion of *homogeneity* holds that no single administrative unit should attempt to perform heterogeneous functions or to serve competing purposes. This principle is related to the principle of nonfragmentation.

### **Issues Related to the Allocation of Functions to Ministries**

The allocation of functions to ministries and the choice of number of ministries involve three related issues:

- how important is the function,
- how should functions be grouped, and
- what type of central control is desirable.<sup>3</sup>

The first issue involves determining whether a function is important enough to warrant a separate ministry. Can a new subject, say, biogenetics, be usefully combined with science and technology, or does it really need a separate ministry? Sometimes, setting up a new entity even when not strictly warranted can give an important signal to the population that the issue is taken very seriously.

The second issue is tied to the complex choice of linkages among functions, which influences the performance of all linked functions. For example, should higher education be grouped with primary education or with pure research? Should company law be placed in the ministry of justice or in the ministry of industry?

The third issue, that of central control, has to do with the perceived political value of the function.<sup>4</sup> An important aspect of the politics of allocating functions is the effort of political actors to shape the machinery of government. For example, exporters' interests would suggest separating external trade from other ministries to focus policy and administrative attention on exports; or the chemical companies may push for giving licensing authority to the health ministry than to a more knowledgeable specialized agency.

It is at the highest level of government that the allocation of functions is most political. As one moves down the structure of the ministry, organization is much more determined by practical convenience. New tasks will often simply be added to the existing tasks with which they appear to have the closest affinity. If some new purpose is considered important enough

for a separate unit, it is necessary to show how separate administrative arrangements could be set up without inflicting damage on other functional linkages.

### **Number and Types of Ministries**

The number and designation of ministries vary across countries. For example, there is a single ministry for infrastructure in countries like Algeria, while many other countries have chosen to constitute separate ministries for different types of infrastructure like roads, ports, water supply and sewerage facilities, and railways. Some countries have a comprehensive ministry for industry and directorates for separate industries; others like India have, in addition to a central ministry for industry, separate ministries for steel mines, heavy industry, small-scale industry, petrochemicals, fertilizers, and food processing. Some countries combine industry and trade, while others create superministries to coordinate all the economic work of government. As mentioned earlier, establishing new ministries often signals policy emphases, e.g., ministries for poverty reduction, women, minorities, or the environment.

The importance of the finance and planning ministries and their relative power varies in different countries. Countries also vary in where they locate crosscutting theme areas like women's development, public assistance and welfare, environment, foreign trade, housing, local government, and consumer rights. Specific areas like civil aviation, standards, information technology, and statistics often migrate to ministries over time with no apparent logic. Most often, the underlying reason is the need to accommodate a well-connected politician or bureaucrat.

The functional grouping of ministries must be squared with the requirements of political management. The large size of departments in presidential systems like the United States (US) is partly a reflection of the problems of span of control implicit in a system where a single person is at the top. In a parliamentary government, the prime minister decides the number and workload of ministries, but there are obvious political influences and constraints on this power.

As a general principle, the number of ministries must neither be so large as to impede coordination, nor so small as to place an excessive workload on each ministry. However, the number of ministers may be increased for political reasons in a coalition government (or with a weak

prime minister), generating stress on the task of coordination. Of course, the problem can be solved by allocating subfunctions to junior ministers. This requires the acceptance of hierarchy among ministers, but it could lead to incessant jockeying for position and implies the abandonment of the concept of reasonably compact ministries.<sup>5</sup>

A published record usually sets forth the powers, functions, and organizational structures of all government agencies, with a citation of the relevant laws and decrees and of the basis for the grouping of functions and amendments, e.g., a regulation such as the Allocation of Business Rules in India. The organization chart for each ministry serves as a ready reference on the principal units and the hierarchy relationships and lines of authority. As noted in Chapter 1, it is essential to keep in mind that these formal charts do not reveal the informal relationships, underlying decision-making processes, and actual lines of communication and behavior.

The higher level clusters of substantive functions of government fall into a pattern that can be found, with minor variations, throughout the world. In general, the principal ministries are finance, foreign affairs, internal affairs, defense, information and communications, foreign trade, transportation, labor, energy, law and justice, industry, agriculture, education, health, urban and regional development, social welfare, and public works. There is greater variation in the organizational pattern of the newer functions, such as environment and informatics. (Box 3.2 shows examples from some developed countries.)

Certain functions may acquire new importance because of international focus, technological advance, external aid, or domestic pressure. Such is the case with environment, women's development, control of major diseases, information technology, and communications. There is a temptation for governments, whenever a new function emerges or an old one is enlarged, to entrust it to a new ministry or autonomous agencies (see Box 3.3). The resulting proliferation of ministries and agencies means confusion for the public and complexity for the political executive.<sup>6</sup> Some countries (e.g., the UK and the US) have avoided the temptation to create new ministries, preferring instead to create new units under the existing ministries, or to hive off functions to nonministerial bodies. Elsewhere, there has been a move to reduce and reorganize the ministries and departments in different countries through merger and consolidation. In federal countries, the change in ministries often represents a downward shift of functions to the provinces, and a similar shift is noticed in the case of the devolution of

**Box 3.2 Internal Structure of Government**

In Japan, all public administration is conducted today by internal departments or by separate but attached agencies of 11 ministries, each of which is headed by a cabinet minister. All the freestanding agencies have progressively been subsumed under the ministries, leaving only two regulatory agencies outside the system. The basic structure in Japan is the product of the National Administrative Organization Law and the various establishment laws for each of Japan's administrative units.

Australia has 5 parliamentary departments, 18 departments, 46 bodies with secretary powers, 13 bodies with dual staffing powers, 17 bodies with some independence, and 14 statutory authorities. The US Government is organized into departments, independent agencies, and bureaus. The basic operating unit is the bureau. These operating units are so important that the entire executive branch may literally be called a bureaucracy, and one might dismiss the departmental and presidential levels as superstructures.

In countries influenced by the British tradition, the ministries and departments are organized along hierarchical lines extending from the permanent secretary at the top to a number of deputy secretaries and undersecretaries, to divisions or sections headed by desk officers, and, at the lowest level, to an army of administrative assistants and secretarial staff. Superimposed on this system is the corps of staff advisers and technical staff, whose advice is fitted into the hierarchical decision-making process.

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*Source: OECD. 1997. Issues and Developments in Public Management. Paris.*

functions in unitary countries to subnational units. In these cases, reducing the size of central government has to be assessed in the total context of public expenditure and service providers. The Government of the People's Republic of China summed it up in the "three fixes"—the fix on functions, the fix on organization, and the fix on personnel—on the basis of which ministries and divisions were restructured and functions were abolished. In general, whenever the organizational structure of central government has not been examined for more than 10 years, a systematic review of functions and organization is advisable.

### Box 3.3 Mushrooming of Government in Bangladesh

Since independence in 1971, the Government of Bangladesh has virtually doubled the number of ministries, departments, and officials. The number of ministries increased from 21 to 35; the number of departments and directorates more than doubled from 109 to 221; and employment in the public sector increased from about 450,000 in 1971 to almost one million in 1992, i.e., at a compound rate of 3.6 percent yearly, compared with the population growth rate of 2.5 percent during the same period.

New ministries, divisions, and departments were created in part to meet emerging needs, such as environmental concerns and women's issues. But the state has also spread its wings more and more into commercial activities. Indeed, the growth of Government has often been stimulated by political considerations. The increase in ministries accommodated more intraparty groups, offered more ministerial positions, and created more jobs to be dispensed by political leaders. Aside from the negative budgetary impact, this expansion has stretched implementation capacity, compounded coordination problems, and exacerbated regulatory intrusiveness. It has also created vested interests that have blocked efforts at rationalization and reform.

*Source: World Bank (1996b).*

### International Patterns

The number of central government ministries averages 16 on a worldwide basis, with little variation among regions from an average of 10 in the small Pacific countries to 20 in the Middle East and North Africa. Within each region, intercountry variation is considerable, however, even taking into account population differences. In Africa, the number of ministries ranges from a low of 10 in Botswana to 28 in Nigeria. The range is from 7 to 35 in Asia, from 11 to 27 in Latin America, and from 6 to 16 in the Pacific. The variation is much smaller in Eastern Europe, the former Soviet Union, and in the Organisation for Economic Co-operation and Development (OECD) countries, with countries clustering around 15 ministries. (See tables below for regional averages and the statistical Appendix III for a list of countries.)

Obviously, countries with large populations tend to have a greater number of central government ministries, as also do countries with a centralized, unitary structure of government. However, the evidence of administrative scale economies is strong: neither the number nor the average size of ministries increases in anything like a proportional way to the size of

**Table 3.1**  
**Number of Central Government Ministries**  
 (various recent years)

| Region                                                   | Average No.<br>of Central<br>Ministries | Population<br>(thousands) | Population<br>per<br>Ministry<br>(thousands) | Central<br>Government<br>Employment | Average No.<br>of<br>Employees<br>per Ministry |
|----------------------------------------------------------|-----------------------------------------|---------------------------|----------------------------------------------|-------------------------------------|------------------------------------------------|
| Africa                                                   | 19                                      | 13,942                    | 926                                          | 1,046                               | 71                                             |
| Asia                                                     | 20                                      | 123,951                   | 4,696                                        | 1,069                               | 51                                             |
| Central and Eastern<br>Europe and Former<br>Soviet Union | 15                                      | 17,813                    | 747                                          | 1,264                               | 73                                             |
| Latin America and<br>Caribbean                           | 15                                      | 17,142                    | 1,169                                        | 2,275                               | 192                                            |
| Middle East and<br>North Africa                          | 20                                      | 14,992                    | 643                                          | 1,390                               | 62                                             |
| Pacific                                                  | 10                                      | 587                       | 44                                           | 5,400                               | 360                                            |
| OECD Members                                             | 14                                      | 37,286                    | 3,022                                        | 1,658                               | 132                                            |
| <b>Worldwide Average</b>                                 | <b>16</b>                               | <b>32,245</b>             | <b>1,607</b>                                 | <b>2,015</b>                        | <b>135</b>                                     |

the population. At the extremes, 43 million people are served on average by each ministry in the People's Republic of China, compared with just 1,300 people in the Cook Islands. We will discuss later the significance (or the lack of significance) of these numbers.

Does the number of ministries matter? It certainly matters in the calculation of senior political leaders who are interested in political accommodation, or of rulers who award cabinet posts to personal followers. The issue is also of importance for effective government for a number of reasons. Too many ministries add to overhead costs on account of the staff and infrastructure connected with each new ministry. Each ministry seeks to find new tasks, fueling the bureaucratic pressure for expansion. Problems are created when several ministries perform similar functions and tread on each other's toes. Finally, dialogue and coordination among ministries may be easier to arrange when they are



fewer. However, as noted earlier, the principle of span of control and effective accountability is jeopardized by excessive size of ministries due to a very small number.

At the same time, reducing the number of ministries may produce neither efficiency nor cost reduction. Sometimes, consolidating ministries and reducing their number erodes checks and balances, as was the case in the Republic of Korea before the restoration of democracy. In the absence of external contestability, in more authoritarian governments with little legislative oversight, overlapping ministries are the only source of internal competition to spur efficient performance. It is necessary to look at the real costs as well as the advantages of merging ministries, and consider the possible advantages of overlapping jurisdictions from the citizens' perspective, and in terms of multiple service delivery avenues.

A number of countries in Asia and Africa have reduced the number of ministries and the agencies under them. Singapore was one of the earliest to undertake the exercise. The Government set up a Committee on Reorganization of Ministries, which led to (i) a reduction in the portfolio mix (especially of unrelated functions within ministries); (ii) the transfer of closely related functions in various ministries to one ministry; and (iii) improvement in the central coordination of activities of the ministries and statutory boards. The Republic of Korea has recently passed the Government Organization Act, which reduced the number of cabinet ministers and minister-level officials, to create a government that is smaller but stronger and more efficient, user-oriented, flexible, and responsive to social change, with decentralized authority and responsibilities. Australia reduced in 1987 the number of government departments from 28 to 18, and the Prime Minister further reduced it to 14 in 1996. The People's Republic of China abolished a number of ministries, consolidated existing departments into more homogenous formations, and launched a downsizing exercise under a central unit. And Italy has recently reduced the number of central government ministries to the lowest in Europe (Box 3.4).

Restructuring and privatization in a number of countries has also involved the merger and abolition of some existing ministries. However, as mentioned before, only a detailed study covering all levels of government can reveal whether ministerial reorganization has actually made a difference in total government employment or public expenditure, or just reallocated the same employees and expenditure in a different way.

**Box 3.4****At Long Last: From Fat to Lean Central Government in Italy**

The Italian Government formulated a far-reaching reorganization of the apparatus of central government in 1999, more than 30 years after the 1968 law that first called for the move. This was the first general ministerial reorganization since 1853, before the unification of Italy. Several legislative decisions were taken in that direction in the 1970s and 1980s, but none were implemented. This delay and procrastination also affected the implementation of other important administrative reform measures, including some prescribed in the constitution. It took the peaceful upheaval of the Italian political system, triggered in the early 1990s by a remarkable group of activist prosecutors investigating the scandals of Tangentopoli (Bribe City), to eventually make all those paper plans a political and administrative reality.

The number of central ministries in Italy peaked in the 1980s at 22, and was gradually reduced to 18, still one of the heaviest central government structures in Europe. After the 1999 reorganization, and the parallel process of decentralization, the Italian central government will consist of only 11 ministries and 10 autonomous agencies. (There are also a number of junior ministers for specific portfolios, but without a separate administrative structure of their own.) At the same time, the Prime Minister's Office has been streamlined to strengthen its policy coordination and guidance function, and the powerful provincial prefectures are to be transformed into more modest deconcentrated offices.

The reorganization of 1999 reduced the number of ministries in Italy to less than the 14 central ministries of France and of the UK, the two countries most comparable with Italy in level of development and in economic, geographic, and demographic size. Thus, at the end of the century, the structure of central government in Italy compares favorably in simplicity and organizational logic with that in other European countries. The more difficult challenge ahead is to transform the actual behavior of government entities, and their employees, toward a genuine public service orientation. As all other massive behavioral change, this challenge will require—beyond exhortation and the dissemination of a service ethos—concrete improvements in the framework of incentives (negative as well as positive) and the systematic provision of more “voice” to the users of public services.

In Central and eastern Europe and the former Soviet Union, ministries are reorganized as part of the challenging effort to restructure both the economic and political systems. Three major problems are associated with the persistence of obsolete organizational structures. One is the continued

functioning of institutions whose rationale has changed radically or has disappeared outright; another is the need to create from scratch organs that can address newly defined functions of government in the transition; the third is the grafting of old institutions onto the new system, often in a dysfunctional way (e.g., Poland; see Nunberg, 1995). Changes in ministry structures to adapt to new tasks are a key element in government reforms. Romania, for example, is working on a comprehensive plan to redistribute functions across ministries, reduce the number of directorates, and reduce the number of political appointees.<sup>7</sup>

Typically, reform has involved the merger of the separate ministries for industry and foreign trade, as in the case of Hungary; ministries of interior have shifted from control mode to service mode, in step with decentralization; ministries of education and culture have shed propaganda-heavy aspects of their portfolio; and ministries of finance are in the process of exercising better their key function of allocating public resources. (See Chapter 7 for a discussion of central government expenditure management.) Many ministries are deconcentrating functions and staff to local and regional offices, or hiving them off to local government. There has been no significant trend in transitional economies to set up new ministries. New bodies have been set up mainly to deal with new functions like privatization, often with sunset provisions, as in former East Germany and the Romania.

### **A Possible Central Government Structure for Developing Countries**

Considering the diversity of experience across countries, it is not possible to suggest a single appropriate number of central government ministries. There can be no flat a priori advice. Each country has to choose in accordance with its administrative traditions and political realities. Also, for the experience of other countries to be useful, the comparison has to be between countries of comparable size and political structure. For example, a federal state will, by definition, have a smaller central government than a centralized or unitary structure—but this says nothing about its efficiency or effectiveness. Also, it is important to verify that an organizational streamlining is more than just a cosmetic merger of two separate ministries without any budgetary savings, or staff reduction, or rationalization of functions. (See the earlier example of the Republic of Korea.)

Clearly, however, the extremes are possible to define. Countries like India with 80 ministries and autonomous central departments, or very small countries like the Cook Islands with 14 ministries for 20,000 people, produce

problems of internal coordination, waste, and bureaucratic vested interests. It is neither good economics nor good politics to continue with overextended and mushrooming ministerial structures.

A typical list of central government functions was mentioned earlier. On the basis of the experience and history of different countries, 11 ministries would generally be sufficient in most developing countries to carry out these functions in a manner that respects the organizational criteria discussed earlier: finance and planning (including aid management); foreign affairs (including external trade); information and communications (including postal services, publicity, and information technology); interior (including police and relations with local government); law and justice; human resources (covering education, culture, sports, and science and technology); human settlements and environment (covering urban and rural development, housing and related service infrastructure, water resources, agriculture, and environment); social and labor issues (covering labor, socially and economically disadvantaged groups, women, and social welfare); health and population (including family planning and disease control); infrastructure (including energy, roads, and different forms of transport); and defense (where needed).<sup>8</sup> Italy, after the 1999 reforms, and Japan come closest to this structure.

In any event, the principal challenge is not to define this or that ideal number of central government organizations, but to identify the core tasks of government in the specific country, establish reasonably coherent organizational structures to perform these tasks, and, most importantly, put in place the rules and the monetary and nonmonetary incentives that will induce good performance by public managers and employees (Chapter 17).

## **STRUCTURE AND ORGANIZATION OF REGULATORY BODIES IN DIFFERENT COUNTRIES<sup>9</sup>**

The principles of regulation have been previewed in Chapter 1. This section focuses on the organization of the regulatory function of government.

### **Evolution of Regulatory Bodies**

Countries have set up regulatory bodies for a variety of reasons. The first was the enforcement of health and safety standards, following the uproar over the congested and unhealthy conditions in factories and the exploitative

practices of managers at the turn of the 19<sup>th</sup> century. Governments set up agencies to regulate working conditions and to improve health and safety in industrial units and public places. This regulation was reflected in the earliest labor laws and charters of local governments, and eventually converged with concerns about labor welfare in general, the prevention of child labor, and welfare provisions for women. Special agencies like the Food and Drug Administration of the US were established later to protect the public from adulterated or poor-quality food and drugs.

The regulation of banking activity has been on the agenda of countries since the start of the industrial revolution. This has led to the establishment of central banks in almost all countries to implement monetary policy and to regulate banking activity. The central banking institutions, such as the Bank of England, the Reserve Bank of India, etc., are also in charge of maintaining exchange rate stability and control of foreign investments and remittances in accordance with international practices.

The expansion of economic activity in the last century led to the growth of independent regulatory agencies to ensure transparent competition and consumer protection. The pursuit of competition and the fear of monopolistic exploitation led many countries to set up antitrust agencies. Consumer protection laws and the enforcement of fair business practices called for special enforcement agencies and courts. In some countries, these developments were spurred by consumer movements and the reports of legislative committees on fraud, unfair practices, and insider stock trading. In many countries like the US, statutes or administrative orders governed the establishment of these regulatory commissions or agencies, which had broad discretionary powers over important sectors of the economy. Through various means (licensing, rate fixing, and safety regulations, for example), the agencies regulate major aspects of transportation, communication, power production and distribution, banking, securities issuance and trading, commodities and securities exchanges, business practices, the safety of consumer products, and labor-management relations. Such agencies are also set up at the provincial and local levels in federal countries like the Canada, India and US.

The growing movement for environmental protection and the control of pollution in its various forms, spurred by international concerns, led to the establishment of regulatory commissions for environmental protection and specialized bodies to regulate water and air pollution, hazardous substances, ozone depletion, and other problem areas. Governments have empowered

environmental agencies such as the Environmental Protection Agency of the India or US to prescribe pollution standards in consultation with consumers and business; enforce compliance through a mix of incentives, fees, and sanctions; grant permits for the pollution-free operation of polluting industries; and provide assistance for the installation of pollution control systems.

Market liberalization and privatization have likewise obliged countries to set up new regulatory agencies at the same time as many areas of traditional regulation have come to be viewed as counterproductive. Often, establishing reliable and independent regulatory agencies for utilities, telecommunications, and financial transactions makes a developing country more attractive to foreign institutions and investors. The enabling laws provide for speedy settlement of disputes over the decisions of the regulatory agency through special court procedures.

Amid consumer fears of exploitation by new service providers in the liberalized context, many countries have expanded the role of regulatory agencies to function as industry ombudsmen as well. The agencies provide information to the public on the procedures for awarding licenses, regulating operators, fixing rates, and filing complaints about unfair practices or exploitation. They also consult with user groups through public hearings on rates and licenses, and with advisory councils of the type set up by the British water regulatory authority. The Indian environmental agency is obliged by law to hold public hearings before granting environmental clearance for major projects.

Regulatory agencies may provide service while achieving their regulatory goals. For example, a license to operate a hydroelectric facility, a service to its recipient, may come with several conditions to protect the environment, a regulatory objective. The same holds true of other licenses and permits, including construction codes and regulations. Enforcing of quality standards in goods and services for export also promotes the country's exports, and gains increase confidence in the exports among foreign importers.

### **Organizational Forms**

The regulatory agencies for utilities and the environment tend to be independent bodies, free from executive control. However, many governments also regulate enterprises and citizen activity through government bureaus that are autonomous but not free from control of government. Such is the status of the US Food and Drug Administration and the Occupational Safety and Health, as well as departmental agencies that grant licenses and permits in a number of

countries. In some developing countries, the public sector monopoly in utilities like telecommunications and power supply often also grants licenses to new entrants. To remedy this anomalous situation, certain to undermine the confidence of the private sector in the fairness of the licensing process, independent supervisory agencies were established.

In developing countries, a regulatory body for a utility is usually an independent statutory authority headed by a person with no political leanings but with known expertise in the field (Box 3.5). For example, the regulatory authority for telecommunications would be composed of experts in telecommunications and related fields of finance and engineering. An established convention in a number of countries calls for the executive to consult with opposition leaders and chambers of industry before nominating the members of the regulatory authority. In some developing countries, user representatives are either nominated to the authority or included in an advisory council whose other members are drawn from the industry.

**Box 3.5**  
**Electricity Regulation Commissions in India**

The Electricity Regulation Act (1998) of India has led to the establishment of the Central Electricity Regulation Commission and Regulation Commissions for electricity in the provinces. The central commission is empowered to regulate the tariff of generating companies owned by the central government, as well as the tariff of private generating companies operating in more than one state. It also regulates interstate transmission of energy, including the tariff of the transmission utilities. The commission collaborates with the environmental regulation agency in developing policies for environmental quality. It aids and advises the government in matters of policy, resource mobilization, consumer interest, and guidelines for tariff, and is empowered to arbitrate in disputes involving power utilities. Appeals against the commission's decisions can be heard only by the High Court. The state commissions have similar powers within their jurisdiction.

The central commission has five members, and its chairperson is expected to be knowledgeable in the electricity industry, engineering, and finance. The commission is assisted in its activities by a central advisory council representing the interests of consumers, industry, transport, agriculture, labor, nongovernment organizations, and research bodies.

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*Source: Government of India (1998).*

The decisions of the regulatory agency have varied impact, depending on the country. In some countries, these decisions are binding on the government; in others, the decisions are merely recommendatory, although the government, if it disagrees with the authority, must explain publicly its reasons for doing so. The affected parties can sue the government for adverse or discriminatory decisions overriding the authority's decisions. Before deciding on the eligibility of bidders, awarding licenses and permits, fixing tariffs and user charges, or distributing territorial rights for operation, the authority is required to follow due process under administrative law and afford equal opportunity to all the parties concerned. Its quasi-judicial powers under the law allow the authority to conduct hearings and to enforce its decisions on all parties. It is often obliged to hold public or closed hearings with all the stakeholders before deciding a matter, and to disclose publicly the reasons for its decisions. As mentioned earlier, some authorities develop a consumer orientation by assuming an ombudsman role, proactively disseminating information on industry practices and avenues of redress.

Regulatory agencies operate in a manner that varies according to the nature of their functions. Decisions by an environment protection agency, for example, are much more generic than specific to an individual or group. It must hold wider public consultation before enforcing pollution abatement standards, levying charges, issuing environment clearance permits, or certifying pollution control devices. A central aviation authority would monitor airport and airline safety and maintenance, as well as the quality of air traffic control, and license pilots. Increasingly, regulatory agencies in areas like environment and water or air quality, telecommunications, and cross-border transport by air, water, and road are required to work in close coordination with neighboring countries in the region, and often across continents. (See the discussion of globalization in Chapter 1.)

A brief reference may be made to the self-regulation by professionals and industry in a number of countries, which helps to build their public credibility through the voluntary enforcement of codes of good practice, and reduces the need for official regulatory authorities. Examples are the architects councils in many countries; the associations of realtors, brokers, and builders; the fair practices councils set up by business associations to investigate consumer complaints about products and business malpractices; and the groups of industrialists with voluntary codes of ethics for pollution abatement and the disposal of hazardous substances. In a number of countries, industry associations offer to undertake mandatory inspections of workplaces and factories, pollution checks, and other regulatory functions



on behalf of the regulatory agency, subject to sample checks by the agency to verify the reports. Very often, however, such entities really work for the particularistic protection of their members and to exercise political influence, under the guise of self-regulation to protect against wrongdoing.

An important management dimension is the enforcement of their orders and decisions, including redress for breach of obligations. Self-reporting systems require standardized reporting instruments and means for reviewing the completeness and accuracy of data. At the other end of the spectrum are systems that rely on physical inspection, such as the inspection of effluent standards by the environmental agency, or drug and food inspections by the Food and Drug Administration. Rapid and timely inspection and sanctions often require well-equipped laboratories and qualified staff. Where permits are required to carry on an industry or trade, the speed and quality of the regulatory agency's decision and action in issuing the license or permit can be an issue for both environmentalists and applicants. When licenses are limited in number, as with broadcast rights or telecommunication zones, competition is stiff, and adversarial relations with the regulatory agency can develop. The problem may recur when licenses are renewed, or a variation in the original conditions is decided. This reinforces the importance of fairness and transparency in the operations of the regulatory agencies, and the need for governments to ensure their independent functioning, subject to redress from the judiciary.

### **“Heavy” and “Light” Regulatory Options**

Regulatory agencies for economic activity foster competition, promote transparency and predictability in decisions, and protect the operators and the consumers from arbitrary decisions by different actors in the field. A well-designed mechanism that commits the regulator to a clearly defined course of action and reduces the vulnerability of competitors to arbitrary changes in policy can reassure potential investors. International experience shows the wide range of “institution-intensive” and “institution-light” options for regulation, and the variability of regulatory approaches in terms of command-and-control or market-like mechanisms (Box 3.6).

**Box 3.6**  
**Varieties of Regulatory Experience**

| Option                | Utilities Regulation                                                                                                                                    | Environmental Regulation                                                                                                                   | Financial Regulation                                                                                                      |
|-----------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------|
| Institution-intensive | Price-cap regulation, with the regulator setting the price adjustment factor<br><br>Regulation by independent commission, with public hearings          | Precise rules (command-and-control or, preferably, incentive-based) established by the regulatory agency or legislature                    | Detailed regulation monitored by competent, impartial supervisory authorities (possibly including some deposit insurance) |
| Institution-light     | Regulation based on simple rules, embodied in transaction-specific legal agreements, and enforceable domestically or through an international mechanism | Bottom-up regulatory approaches: public information, local initiatives to strengthen citizens' voice, and initiatives by local authorities | Incentives structured so that bankers and depositors have a substantial stake in maintaining bank solvency                |

*Source: World Bank (1997).*

*Institution-intensive approaches* rely on public administrators to manage complex technical problems, and give regulators considerable flexibility in responding to changing circumstances. These approaches also use an array of checks and balances to restrain arbitrary behavior by regulatory agencies and to build credibility. Banking sector regulation all over the world tends to be institution-intensive. Well-designed regulation, monitored and enforced by competent and supervisory authorities, can overcome the information asymmetries inherent in banking in developing countries and detect potentially damaging crises.

The use of price caps in utility regulation in different countries illustrates both the scope of authority of an independent regulator and the role of institutional checks on arbitrary action. A price cap gives the utility

an incentive to be efficient, but can vest substantial discretion in the regulating agency. In countries with weak checks and balances, the private investors may be in a position to manipulate the price adjustment factor to their great advantage, but at the expense of the consumers. The Jamaican case illustrates the danger of having no checks on the actions of the Public Utility Commission (World Bank, 1997). Price controls became so punitive that the largest private telecommunications operator was obliged to sell its assets to the Government in 1975. The experiment, in a number of Caribbean countries, to award long-term nonvariable contracts to single private operators in power and telecommunications has generally exposed the industry and the consumer to high tariffs and poor-quality services.

In general, *institution-light approaches* are easier to implement in countries with weak institutional foundations for regulation, greater chances of arbitrary action by new regulatory agencies under the formal or informal control of government, and inadequate capacity on the part of the judiciary to protect business and citizens from wrong or capricious decisions. Developing countries with weak institutions should assess local capacity and political will to grant independence to regulatory agencies before proceeding with a rash of legislation to set up regulatory authorities, lest public confidence in the competence and fairness of the authorities is undermined.

## IMPLICATIONS OF THE REGULATORY FRAMEWORK FOR PUBLIC SECTOR MANAGEMENT AND ECONOMIC ACTIVITY

### Regulatory Inflation?

As we have seen, basic regulation is a fundamental responsibility of all governments. However, in most cases there is evidence of too many laws and too much regulation. The French Conseil d'Etat (which rules on the legality and propriety of administrative and legal proposals) called the situation "regulatory hemorrhage." The annual production of new laws in France increased by 35 percent over the years 1960—1990, and the production of new decrees by 20—25 percent over the same period.<sup>10</sup> Australia saw a doubling of subordinate legislation between 1982 and 1990. The Indian Commission on Administrative Law estimated the total number of central acts in force in 1998 to be around 2,500, and felt that half of them should be repealed. In the US, the comprehensive Code of Federal Regulations swelled from 54,834 pages in 1970 to over 138,000 pages in 1995.

There is also the mass of ministerial, agency-level, and municipal orders, decisions by independent administrative authorities and tribunals, and government circulars, not to mention the spate of regulations and orders of international regulatory bodies (such as the European Commission or the World Trade Organization) that countries and companies must comply with. Not only is there a plethora of laws and regulations, but they change so quickly that citizens (and sometimes the frontline employees, too) do not know what they contain.

### **Costs of Regulation**

The fiscal and economic costs of regulation, typically not taken into explicit consideration when enacting the regulation, have four main components.

- Fiscal costs to government—the cost of administering the regulatory system itself, including compliance and adjudication. (In the US, on-budget costs increased by about five times between 1970 and 1995, and the staffing of regulatory agencies doubled.)
- Administrative and paperwork costs to businesses and citizens. (In OECD countries, this cost is estimated at 1.7 percent of GDP)
- Costs of compliance—the cost of new equipment, reconfiguration of production processes, relocation, and cost escalation due to delay in the receipt of permits. (In OECD countries, such compliance costs are estimated to be in the range of 10 percent of GDP)
- Indirect costs to the economy, in the form of reduced competition and innovation, and slowed investment.

### **Assessing the Quality of Regulation**

A good quality regulatory system supports national economic performance—defining property rights and avoiding needless litigation, fostering competition, correcting market failures, and promoting fair and equitable market systems. Bad regulation reduces investment, wastes resources, raises costs for consumers, and provides openings for corruption.

Other things being equal, the quality of regulatory enforcement is inversely related in the first place to the quantity of regulation. However, it depends also on the nature of regulations and on the capacity of institutions. Unworkable regulations or draconian rules lead to weak enforcement or widespread evasion, especially in developing countries. Low enforcement

capacity of independent regulatory bodies or enforcement units in existing institutions could result not only in delays and transaction costs, but huge risks for the economy as well. This is illustrated by the costs of the stock market scam in India or the East Asian financial crisis.

## **Deregulation**

Deregulation aims at making regulations simpler and less burdensome for everyone. It involves abolishing out-of-date rules, and making sure that new ones are introduced only when strictly necessary and after exploring alternatives. Many countries have established specialized mechanisms at the ministerial level for streamlining regulatory mechanisms across the government (Box 3.7). These include the Office of Regulation Review in the Australian Industry Commission; the Office of Regulatory Affairs in Canada; the Deregulation Unit in the UK Cabinet Office; and the Office of Information and Regulatory Affairs in the Office of the President of the US. Institutions with an advisory role in setting the regulatory agenda include the French Commission for Public Sector Reform and the Ministries of Economics and the Interior in Germany. Others, such as the ministerial-level Economic Deregulation Board in Mexico and Japan's Administrative Reform Committee (an adviser to the Prime Minister), are deeply involved in reviewing existing regulations and in setting priorities for action by the ministries. As the OECD (1997e) observes, such capacities are most effective if they are independent, horizontal across government, expert, able to take the initiative, and linked to existing centers of oversight and political authority.

Developing countries could start with pilot programs in perceived areas of regulatory costs and immediate priority, and proceed by incremental steps to simplifying regulations to improve service delivery and reduce transaction costs for citizens and business. These would cover strategies like decentralization and delegation, the use of alternate providers, and elimination of unnecessary licenses and forms.

Throughout this process, it must be remembered that the cost-benefit principle is a two-way street. Just as proposals for new rules should be realistically evaluated based on their likely costs and benefits, proposals to eliminate rules should consider the probable impact on the affected groups. Generally, however, the regulatory inflation of the past decades counsels placing the burden of proof on retaining a rule of suspect value rather than on getting rid of it.

### Box 3.7 Deregulation Around the World

There are striking recent examples of deregulation. In 1988, the President of Mexico appointed a “deregulation czar” who reported directly to him. The office operated under a strict timetable to revise or abolish within 45 days a rule regarding which it had received a complaint. The work of this deregulation czar is credited with accelerating regulatory reform and providing access to citizens. The reasons for his success are relevant to developing countries: unequivocal support from the top; provision for overrule only at the highest level; tough penalties for officials who did not comply with the ruling; a definite time limit for action; professional skills of the czar’s staff; and credibility with officials and the public through the opportunity for fair hearing (World Bank 1997)

Brazil set up a Federal Deregulation Commission which managed to revoke 112,000 of the 127,000 decrees written since the beginning of the republic. Turkey completed a codification program which eliminated 1,600 laws and consolidated 12,000 others. India in 1998 set up a Commission for Review of Administrative Law, which recommended the repeal of over half of the central laws and changes in many regulations. In Canada, the Ministry of Finance supervises department-wide reviews of regulations. The US has introduced the sunset clause and staged repeals in most laws, and has authorized Congress to veto any new regulation. The National Performance Review has resulted in the drastic reduction and simplification of many manuals. The UK Deregulation and Contracting Act makes it possible to reduce the burden imposed by the provisions of different acts, through a consultative process of notification. The Malaysian Government has taken initiatives to issue composite licenses for business and investment, extend their period of validity, establish one-stop licensing centers, and abolish certain licenses. The Singapore Registry of Companies and Businesses has allowed the public to correct minor errors by lodging a statutory declaration instead of having to approach the court.

*Source: OECD (1997e); World Bank (1996b).*

## KEY POINTS AND DIRECTIONS OF IMPROVEMENT

### Key Points

The central government in all countries is organized into various ministries (sometimes called departments), and various supporting units within or outside the ministries. Function has become the prevailing principle for establishing ministries and organizing the work of government. In turn, functions are grouped according to the criteria of nonfragmentation, nonoverlap, span of control, and homogeneity. These determine also the rationale for setting up new ministries to discharge a new function. The

country's administrative structure and cultural factors are also relevant to how government is organized. In addition to function, new ministries sometimes can be set up to signal new policy thrusts, e.g., on environmental protection.

The approach is generally to group functions into as homogenous units as possible, in order to facilitate the exercise of distinctive authority by ministers, without overlap or gaps, and thus foster accountability. However, overlapping jurisdictions may have advantages in generating internal debate and providing citizens alternative avenues for services.

The pressure to cut public expenditure and downsize government administration has pushed several countries to reorganize and reduce the number and size of government ministries and departments in various ways. This tendency was reinforced by the moves toward decentralization and the demand of subnational government units for more authority and resources. In transitional economies, the effort to restructure the economic and political systems has naturally required extensive central government reorganization.

As a general rule, the number of ministries must neither be so large as to impede coordination, nor so small as to place an excessive workload on each ministry and cloud accountability. In practice, the number of ministries varies enormously between countries, from close to 100 ministries in some countries to fewer than 10 in others. Each ministry serves an average of 43 million people in People's Republic China, and 1,300 people in the Cook Islands.

Thus the number of central government ministries does matter, not only for coordination, but also to keep down the costs of government and contain the pressures for bureaucratic expansion. Broadly speaking, most countries can manage very well with 12—18 central ministries. However, reducing the number of ministries by itself produces no advantage and in special cases can weaken accountability by producing hybrid entities.

The organization of regulatory bodies is an important influence on the effectiveness of the regulatory function, which is an essential function of government in any country. As noted earlier, regulation has expanded vastly in the 20<sup>th</sup> century. In part, this expansion was related to increasing concern with safety, public health, environment, consumer protection, banking and financial stability, etc. But also, a veritable regulatory

hemorrhage has occurred in most countries, with new regulations added without deleting obsolete ones, or an unnecessary detail in regulations to address a valid public purpose. An excessive amount of regulation not only carries costs for the government and the economy, but worsens the quality of regulation and weakens its enforcement. Accordingly, a worldwide movement toward deregulation began around the late 1980s. In this movement to deregulate, which is appropriate and timely, care must be taken nevertheless not to eliminate inadvertently rules that are necessary and efficient. Therefore, just as new regulations should be subject to a realistic cost-benefit test, so should proposals to remove regulations. Because resistance should be expected from the entities responsible for administering the regulations under review, a serious effort at regulatory streamlining must include the elimination or merger of a number of regulatory entities.

### **Directions of Improvement**

Few recommendations can be advanced in an area as political and dependent on country characteristics as the organization of government. However, certain general approaches can be advanced.

By and large, developing countries are usually more heterogeneous than developed countries and their independence is more recent. Therefore, while the functional principle dominates the organization of central government in developed countries, much of the developing world could usefully consider the value of ministries serving a particular geographic area or clientele, whenever government reorganization appears appropriate.

Also, there is a certain trade-off between coordination and accountability: a larger number of ministries makes coordination more difficult but facilitates the placement of responsibility. Again as a broad generalization, in developing countries weak accountability is more of a problem and a risk than loose coordination of decisions. To that extent, whatever the number of ministries, care should be taken to assure clear assignment of responsibility and rules for accountability. Nevertheless, while the specific number of ministries depends largely on country size, goals, and circumstances, most developing countries of average size can probably get by with 12—18 ministries, and the very small countries with fewer than 10.

Concerning the regulatory framework, the situation is complicated in most developing countries by the regulations inherited from the former colonial authorities, which are not only likely to be obsolete but were



designed in the first place for controlling and exploiting rather than protecting the local citizenry and encouraging competition. To these were added the many more regulations promulgated after independence. Nevertheless, the key issue in most developing countries is not the quality of regulation but its lax and erratic enforcement. Most countries would therefore benefit from a two-pronged effort at regulatory reform by (i) extensively pruning the welter of regulation; and (ii) building the capacity for robust, nondiscriminatory, and predictable enforcement of key regulations—particularly those that protect competition, public safety and health, the environment, and land use.

## NOTES

- <sup>1</sup> Outputs are the goods or services produced; outcomes are the purposes that these outputs are meant to achieve. See Chapter 17.
- <sup>2</sup> Oakerson in Perry, ed. (1989).
- <sup>3</sup> Self (1972).
- <sup>4</sup> Burton (1954).
- <sup>5</sup> Manning (1999a).
- <sup>6</sup> Self (1972).
- <sup>7</sup> OECD (1997b).
- <sup>8</sup> The few countries in the world without armed forces, such as Costa Rica, enjoy typically greater national security than their neighbors.
- <sup>9</sup> This section is drawn from OECD (1997e); World Bank (1997); Fesler and Kettl (1991); Cooper and Newland, eds. (1997).
- <sup>10</sup> OECD (1997e).

