

Comparative Experiences with Functional Reviews & Alternative Service Delivery

"What are functional and alternative service delivery reviews and what types of reviews have countries implemented?"

I. Purpose

This note presents a number of different country experiences with functional reviews and Alternative Service Delivery, and provides a conceptual framework from which to select appropriate cases for further analysis. Case studies relevant to each topic are presented below.

II. Functional Reviews

A functional review of government expenditures typically evaluates existing expenditure programs along two dimensions: efficiency and effectiveness. Such reviews vary by objectives and scope. In some cases, the focus is at the policy and program level on effectiveness concerns; in other cases the focus is at the organizational level on efficiency concerns or a combination thereof. The scope of such reviews can be far reaching across all agencies or quite narrow in scope. Below, functional reviews are classified into five generic types:

1. Pure policy or program reviews

Objective: To eliminate non-priority programs or agencies (e.g. privatizing State Owned Enterprises)

Cases:

- Brazil – inventory of 380 Government programs.
- Canada – the 1994 program review established a high level *special committee* under the Prime Minister. The Committee set performance based guidelines and managed the review process that helped to generate substantial cuts (averaging 21.5 percent across departmental budgets).
- Kazakhstan – functional reviews from 1998-99 were quite effective at aligning state functions and eliminating inappropriate functions. The entire review was linked with the budget process and headed by the Budget Commission.

2. Pure efficiency reviews

Objective: To generate the same outputs at greater efficiency through organizational and business process reengineering.

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Case:

- Macedonia – the Government agreed with the IMF to reduce the wage bill in 2001, leading to reductions in the central administration.

3. Upstream program and efficiency review

Objectives: To refocus on comprehensive, high priority programs and large scale restructuring of the machinery of government.

Case:

- New Zealand - reviews of the State Sector. The review was an expert-based, top-down review undertaken without the participation of line agencies. Restructuring in many sectors resulted in a 50% downsizing of the public sector.

4. Intermediate functional and agency review

Objectives: To reshape some programs and restructure a select number of agencies to eliminate duplications.

Cases:

- Canada - on-going Alternative Service Delivery reviews in a number of provinces (discussed below)
- Latvia - 1999 functional review of the Ministry of Agriculture. The review identified 161 separate functions, of which nine were identified for privatization, 40 for rationalization, and twelve for transfer to other sectors. Implementation closely followed the proposed review.
- Nicaragua - structure and function diagnoses of nine government agencies led to a program of emergency cuts and a new Executive Branch Organization law streamlining the central government.
- UK – Fundamental Expenditure Reviews; Better Quality Services and Best Value Reviews. The principles of the reviews are: challenge, compare, consult, and compete.

5. Downstream organizational reviews and business process re-engineering

Objectives: To drop or change specific activities or services, and in some cases the detailed restructuring of a few specific agencies.

Cases:

- Canada - Province of Quebec- Autonomous Service Unit Program
- Jamaica – 19 agency modernization diagnostic reviews
- UK – prior options reviews; market testing – for determining the feasibility and efficiency of contracting out services.

From the literature on functional reviews a few key points and factors of success are important to take into consideration. First, most functional review exercises involve setting general targets, but without specifying exactly where they will be found. Second, aligning functional reviews with the budget process in order to ensure that

recommendations are provided at the appropriate point in the budget cycle is essential. Third, one of the reasons for successful reviews in OECD countries was that the legal mandates of the agencies and programs were flexible enough to allow relevant ministries to amend their own structure and services. Fourth, it is often extremely difficult for such exercises to be successful in the absence of strong political leadership and/or ownership and buy-in on the part of line ministries and departments. Finally, a compelling need for such reviews is critical to gaining the consent of the public, such as a looming fiscal crisis.

III. Alternative Service Delivery

Alternative Service Delivery (ASD) refers to the organizational and structural choices in improving the delivery of programs and services. It is originally a Canadian term used to encourage managers to think creatively concerning the best options for achieving their mandate and serving the public beyond simply delivering services through traditional public sector agencies. ASD can be broken down into three parts:

- a. Establishing the appropriate organizational forms within departments or outside traditional structures to improve organizational performance;
- b. Bringing together organizations from across government, between levels of governments, or across sectors, through partnerships (for example, "single windows," co-locations, or clustering of services to citizens) to provide more seamless and citizen-centered services; and
- c. Exploring creative ways of delivering services outside of the public sector, such as public-private partnerships, outsourcing or contracting out various services.¹

Objectives for ASD include improving the cost-efficiency of services and implementing innovative organizational arrangements for service delivery.

Case Study: *Canada Alternative Service Delivery Reviews*

In Canada, all departments are to continually assess their programs and services and to identify opportunities for alternative or innovative organizational arrangements to improve organizational performance. Provinces such as Alberta, Manitoba, New Brunswick, and Ontario have instituted on-going ASD reviews. All ASD proposals are reviewed by the Treasury Board of the Canada Secretariat and the division has developed a set of assessment guidelines.

The decision to proceed with an ASD initiative is supported by a thorough analysis guided by the following principals: public interest, service quality and client orientation, resource management, and human resources. All proposals must pass the Public Interest Test, which covers the key dimensions of affordability, external partnership,

¹ Treasury Board of Canada Secretariat, *Policy on Alternative Service Delivery*. Available from: http://www.tbs-sct.gc.ca/Pubs_pol/ojepubs/TB_B4/asd-dmps1-eng.asp#_Toc853881. (Note: the Canadian Treasury Board combines bullets 1 and 3 above into a single bullet.)

jurisdictional alignments, and the role of government. This case-by-case approach has enabled Canada the flexibility to put in place the service delivery structures that are most appropriate for a given context.

The impact of the ASD initiative has not been measured consistently across the government, but results to date include:

- The creation of additional Special Operating Agencies (or SOAs);
- The establishment of three legislated service agencies (revenue, food inspection, parks);
- The outsourcing of property management functions, with projected savings of \$40-50 million; and
- The privatization of government printing and publications.

Underpinning all ASD arrangement is an important tension between public service values and the marketplace, and autonomy and accountability. Recognizing this tension is important to clarifying the best approach for ASD in terms of the types of services under consideration.