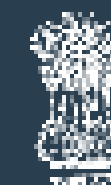


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THIRTEENTH REPORT

SECOND ADMINISTRATIVE REFORMS COMMISSION

ORGANISATIONAL STRUCTURE OF GOVERNMENT OF INDIA



ORGANISATIONAL STRUCTURE OF GOVERNMENT OF INDIA



Second Administrative Reforms Commission
Government of India

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APRIL 2009

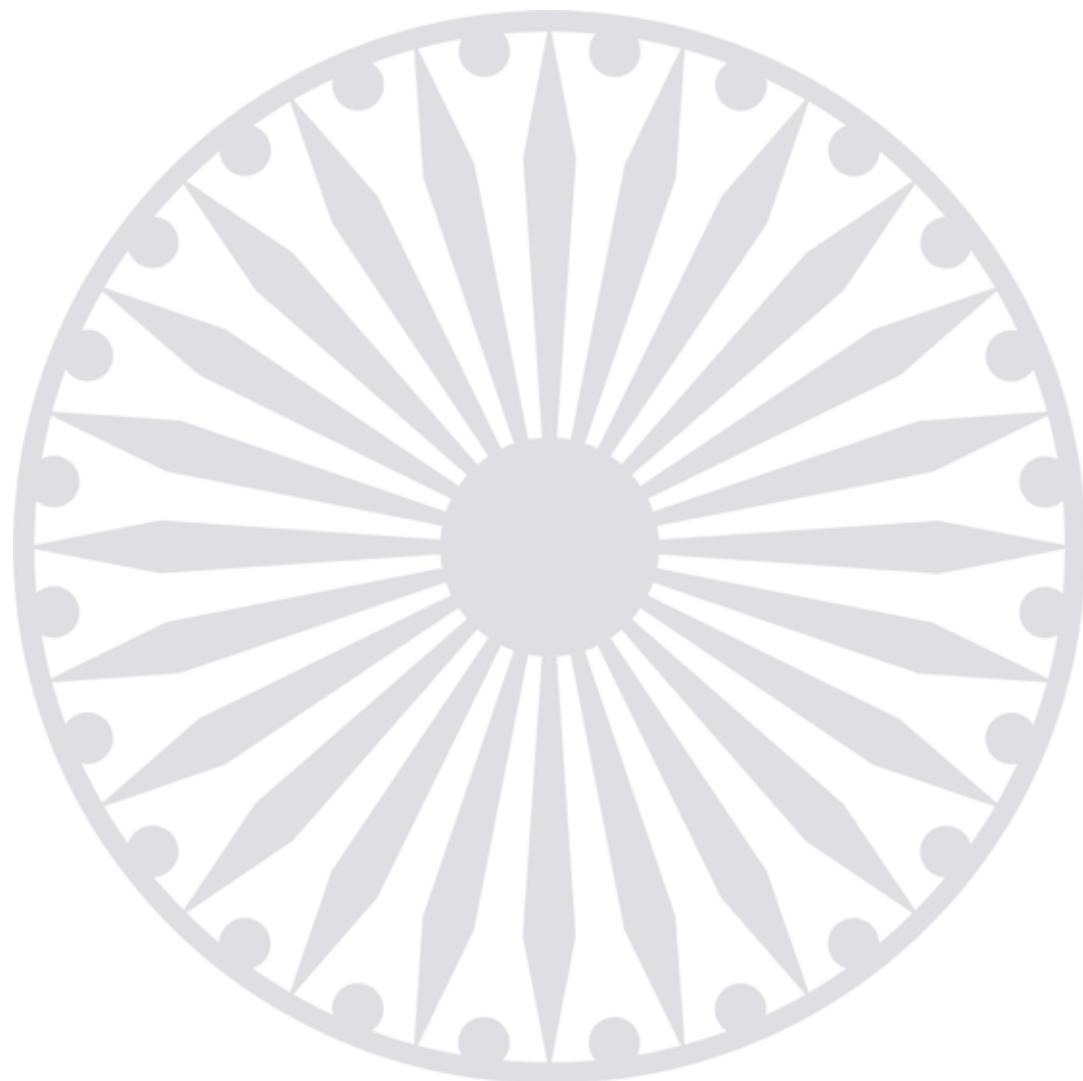
GOVERNMENT OF INDIA

SECOND ADMINISTRATIVE REFORMS COMMISSION

THIRTEENTH REPORT

ORGANISATIONAL STRUCTURE OF
GOVERNMENT OF INDIA

APRIL 2009



Government of India
Ministry of Personnel, Public Grievances & Pensions
Department of Administrative Reforms and Public Grievances

Resolution

New Delhi, the 31st August, 2005

No. K-11022/9/2004-RC. — The President is pleased to set up a Commission of Inquiry to be called the Second Administrative Reforms Commission (ARC) to prepare a detailed blueprint for revamping the public administration system.

2. The Commission will consist of the following :

- (i) Shri Veerappa Moily - Chairperson
- (ii) Shri V. Ramachandran - Member
- (iii) Dr. A.P. Mukherjee - Member
- (iv) Dr. A.H. Kalro - Member
- (v) Dr. Jayaprakash Narayan - Member*
- (vi) Smt. Vineeta Rai - Member-Secretary

3. The Commission will suggest measures to achieve a proactive, responsive, accountable, sustainable and efficient administration for the country at all levels of the government.

The Commission will, inter alia, consider the following :

- (i) Organisational structure of the Government of India
- (ii) Ethics in governance
- (iii) Refurbishing of Personnel Administration
- (iv) Strengthening of Financial Management Systems
- (v) Steps to ensure effective administration at the State level
- (vi) Steps to ensure effective District Administration
- (vii) Local Self-Government/Panchayati Raj Institutions
- (viii) Social Capital, Trust and Participative public service delivery
- (ix) Citizen-centric administration
- (x) Promoting e-governance
- (xi) Issues of Federal Polity
- (xii) Crisis Management
- (xiii) Public Order

Some of the issues to be examined under each head are given in the Terms of Reference attached

as a Schedule to this Resolution.

4. The Commission may exclude from its purview the detailed examination of administration of Defence, Railways, External Affairs, Security and Intelligence, as also subjects such as Centre-State relations, judicial reforms etc. which are already being examined by other bodies. The Commission will, however, be free to take the problems of these sectors into account in recommending re-organisation of the machinery of the Government or of any of its service agencies.

5. The Commission will give due consideration to the need for consultation with the State Governments.

6. The Commission will devise its own procedures (including for consultations with the State Government as may be considered appropriate by the Commission), and may appoint committees, consultants/advisers to assist it. The Commission may take into account the existing material and reports available on the subject and consider building upon the same rather than attempting to address all the issues ab initio.

7. The Ministries and Departments of the Government of India will furnish such information and documents and provide other assistance as may be required by the Commission. The Government of India trusts that the State Governments and all others concerned will extend their fullest cooperation and assistance to the Commission.

8. The Commission will furnish its report(s) to the Ministry of Personnel, Public Grievances & Pensions, Government of India, within one year of its constitution.

Sd/-
(P.I. Suvrathan)
Additional Secretary to Government of India

*Dr. Jayaprakash Narayan – Member, resigned with effect from 1st September, 2007 (Resolution No. K.11022/26/207-AR, dated 17th August, 2007).

ORGANISATION

Second Administrative Reforms Commission

- 1. Dr. M.Veerappa Moily, Chairman*
- 2. Shri V. Ramachandran, Member**
- 3. Dr. A.P. Mukherjee, Member
- 4. Dr. A.H. Kalro, Member
- 5. Dr. Jayaprakash Narayan, Member***
- 6. Smt. Vineeta Rai, Member-Secretary

Officers of the Commission

- 1. Shri A.B. Prasad, Additional Secretary
- 2. Shri P.S. Kharola, Joint Secretary#
- 3. Shri R.K. Singh, PS to Chairman#
- 4. Shri Sanjeev Kumar, Director
- 5. Shri Shahi Sanjay Kumar, Deputy Secretary

*Dr. M. Veerappa Moily – Chairman, resigned with effect from 1st April, 2009 (Resolution No.K-11022/26/2007-AR, dated 1st April, 2009)

**Shri V. Ramachandran, was appointed Acting Chairman vide Resolution No. K-11022/26/2007-AR, dated 27th April, 2009

***Dr. Jayaprakash Narayan – Member, resigned with effect from 1st September, 2007 (Resolution No.K-11022/26/2007-AR, dated 17th August, 2007)

Till 31.03.2009

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LIST OF ABBREVIATIONS

Abbreviation	Full Form
APOs	Autonomous Public Bodies
ARC	Administrative Reforms Commission
ASEAN	Association of South-East Asian Nations

CEO	Chief Executive Officer
CERC	Central Electricity Regulatory Commission
COS	Committee of Secretaries
DGET	Directorate General of Employment and Training
DOD	Department of Defence (US)
DOE	Department of Energy (US)
DOH	Department of Health (US)
DOI	Department of Interior (US)
DOJ	Department of Justice (US)
DOP&T	Department of Personnel and Training
DOT	Department of Telecommunications
DSOs	Departmental Strategic Objectives
ERCs	Electricity Regulatory Commissions
EU	European Union
GDP	Gross Domestic Product
GOMs	Group of Ministers
IAIs	Independent Administration Institutes
IIPA	Indian Institute of Public Administration
IMD	International Institute for Management Development, Switzerland
INTAN	Institute Tadbiran Awam Negara (Malaysia)
IPC	Indian Penal Code
IRDA	Insurance Regulatory and Development Authority
LDC	Lower Division Clerk
MOU	Memorandum of Understanding
MRTPS	Monopolies and Restrictive Trade Practices Commission
NATO	North Atlantic Treaty Organization
NPM	New Public Management
NPR	National Performance Review
O&M	Organisation and Management
PMS	Performance Management System

PSA	Public Service Agreement
PSUs	Public Sector Undertakings
PUC	Paper under Consideration
SEBI	Securities and Exchange Board of India
SES	Senior Executive Service
TQM	Total Quality Management
TRAI	Telecom Regulatory Authority of India
UAE	United Arab Emirates
UDC	Upper Division Clerk
UK	United Kingdom
UN	United Nations
UPSC	Union Public Service Commission
US	United States

INTRODUCTION

1.1 One of the terms of reference of the Administrative Reforms Commission pertains to the structure of the Government of India. The Commission has been asked to look into the following aspects:

1. Organizational Structure of the Government of India

1.1 Reorganization of Ministries and Departments

1.1.1 Revisiting and redefining the role of the Ministries and Departments in the context of evolving role of governance and need for greater collaboration.

1.2 Manpower planning and Process re-engineering.

1.3 Suggest ways to position the administrative services in the modern context of global integration, emergence of markets and liberalisation.

1.4 To examine if the present system of governance is optimally suited to the environment of the times

1.4.1 To suggest a framework for possible areas where there is need for governmental regulation (regulators) and those where it should be reduced.

1.4.2 To strengthen the framework for efficient, economical, sensitive, clean, objective and agile administrative machinery.

1.2 The Commission in its various Reports has already examined and made recommendations on different aspects of governance – transparency in government, public order and anti-terrorism, ethics in governance, decentralization and empowerment of local bodies, refurbishing of personnel administration, creating citizen centric administration, etc. In the present Report, the Commission will be analyzing and making recommendations for reforming the structure of the Government of India since the sustainability of the other reforms is closely interlinked

with the creation of a pro-active, efficient and flexible organizational framework.

1.3 Most of the structures existing in the government are based on the Weberian model of division of work - a well defined hierarchy, adherence to rules and, by and large, impersonal functioning. These organizational structures have stood the test of time to a considerable extent but are more suited to command and control functions and less so when it comes to developmental, promotional and facilitative functions of the State. India's position on various key human development and economic parameters remains well below desired levels. In a way this is a reflection of the structure and functioning of governmental organizations.

1.4 The Commission is of the view that these structures now need to be redesigned in order to make our governance apparatus an instrument of service to the people as well as a tool to achieve national objectives in the fields of social and economic development.

1.5 The Commission obtained the views of different Ministries/Departments on various aspects of their mandate and role as well as their organizational structure and internal processes. In addition, the questionnaire on civil services reforms sought to elicit responses on aspects like minimizing hierarchical tiers in government, shifting towards a decision maker oriented system instead of a hierarchical system and creation of executive agencies. The Commission had also enlisted the help of the Indian Institute of Public Administration (IIPA), New Delhi to prepare a background paper on the existing structure. The Commission also sought the assistance of management experts in getting an overview of the modern concepts in organizational structure. The Commission organized a series of consultations with Secretaries to the Government of India, members of Central and All India Services as well as eminent retired civil servants. During its visits to the States, the Commission held detailed discussions with State Governments, retired civil servants and eminent public personalities. The Commission visited Singapore, Australia, Thailand, France and the United Kingdom and had extensive discussions with the authorities there to understand the structure and functioning of government in those countries as well as the reform measures undertaken by them. As the terms of reference of the Commission included Regulatory Reform, the Commission held deliberations with prominent government regulators, both past and present.

1.6 Though the Report was finalized in April and printed in May, 2009, the Commission would like to record its appreciation for the contributions made by Dr. M Veerappa Moily in arriving at the conclusions. Before resigning from the position of Chairman ARC, on 31st March, 2009, Dr. Moily had played an important role in guiding the deliberations of the Commission in finalizing this Report.

1.7 The Commission would like to place on record its gratitude to Prof. Pradip Khandwalla

for preparing an analytical report titled 'Revamping Government of India's Administration for Governance Excellence'. The Commission would like to thank Shri S K Das, Consultant, ARC for providing very useful inputs in drafting this Report. The Commission is grateful to Dr. P.L. Sanjeev Reddy, the then Director, Indian Institute of Public Administration (IIPA) and Prof. Sujata Singh, IIPA for preparing a background paper on the existing structure of Government of India. The Commission would also like to thank Shri Nripendra Mishra, Chairman, Telecom Regulatory Authority of India; Shri Pradip Baijal, Former Chairman, Telecom Regulatory Authority of India; Prof. N.R. Madhava Menon, Member, Commission on Centre State Relations; Shri L. Mansingh, Chairman, Petroleum and Natural Gas Regulatory Board; Shri Vinod Dhall, Former Chairman, Competition Commission of India; Shri M. Damodaran, former Chairman, SEBI; Shri Prabodh Chander, Executive Director, Insurance Regulatory and Development Authority; Shri C.A. Colaco, Adviser (Legal/Regulatory/Policy), Tata Power; Ms. Vandana Aggarwal, Director, Planning Commission, Shri Mani, National Highways Authority of India and Shri K M Abraham, Shri Sahoo and their team from SEBI for sharing their views on reforms in the Regulatory sector. The Commission is grateful to Dr. K.P. Krishnan, Joint Secretary, Ministry of Finance, for making a presentation to the Commission on a comparative analysis of Regulators in different sectors in the country. The Commission acknowledges with gratitude the very useful suggestions made by eminent persons including former civil servants and senior officers of Government of India and State Governments. The Commission is particularly grateful to the dignitaries and officers of the countries visited for sharing readily the experience with reforms in their respective countries.

2 REORGANISING GOVERNMENT - INTERNATIONAL EXPERIENCES¹

2.1 Background

2.1.1 Public administration in India faces immense challenges. These include the need to maintain peace and harmony, to alleviate deep poverty, to sustain a healthy and inclusive economic growth, to ensure social justice and to achieve an ethical, efficient, transparent and participative governance. The magnitude of these challenges is evident from India's ranking on various parameters (Box 2.1).

2.1.2 The sort of public administration needed to escalate the growth rate may not necessarily be the one that tackles deep poverty, seeks to remove inequality, tackles corruption, fights criminalization of politics, or ensures speedy justice. It is unlikely that a single design of the administrative machinery will fill all bills. One needs to be bold and innovative in designing special purpose instrumentalities, some of which may apparently be inconsistent with one another. For instance, further de-regulation may be required to foster economic growth, and the State may need to withdraw from some of the commercial activities that it is currently engaged in. At the same time, the State may need to devise measures to more effectively regulate certain sectors while pumping more money to improve the infrastructure, alleviate poverty and remove inequalities. Some de-regulation can reduce corruption, but other regulations may have to be put into place to fight corruption.

Box 2.1 : India's Ranking on Key Parameters

UN Human Development Report, 2008

From 127 in 2004, India has slipped to 132 in the Human Development index, scoring below Equatorial Guinea and the Solomon Islands.

IFC/WB Doing Business Report, 2009

India is the most difficult country to enforce contracts in a court or otherwise. At 122, it trails Nepal and Bangladesh.

WEF Global Competitiveness Report, 2008

With its inadequate infrastructure, inefficient bureaucracy and tight labour laws, India at 50th position, is no match for China.

Global Corruption Perception Index, 2008

India's rank has fallen from 72 in 2004 to 85 even as China, with which it was on par till last year, maintained its position at 72.

UNIDO Report, 2009

India, at 54 (down from 51 in 2000), trails China by 28 positions on the Competitive Industrial Performance Index.

Index of Economic Freedom, 2009

With a shackled judicial system, excessive regulation and a "mostly unfree" reputation, India, at 123, trails Gabon.

Source: India Today, April 6, 2009

2.1.3 India has taken several significant initiatives to improve the quality of governance as detailed in our earlier Reports. These include the 73rd and the 74th Constitutional Amendments which aimed to empower the local bodies, the 97th Constitutional Amendment which limited the size of the Council of Ministers, the new Value Added Tax regime and the Right to Information Act etc. These indicate that our political system is responding to the growing challenges of governance.

2.1.4 The reasonably swift and efficient response of our administration to a series of major natural calamities e.g. the Tsunami in December 2004, and the earthquake in Jammu & Kashmir - demonstrates that in times of crisis we are able to marshal our resources effectively. All these and competent election management show that we have an impressive administrative infrastructure and it responds well when objectives are clearly defined, resources are made available and accountability is strictly enforced.

2.1.5 However, a lot more remains to be done. There is increasing lawlessness in several pockets of the country, and armed groups are resorting to violence with impunity for sectarian or ideological reasons. The State apparatus is generally perceived to be largely inefficient, with many functionaries playing a passive (and safe) role. The bureaucracy is generally seen to be tardy, inefficient, and unresponsive. Corruption is all-pervasive, eating into the vitals of our system, undermining economic growth, distorting competition, and disproportionately hurting the poor and marginalized citizens. Criminalization of politics continues unchecked, with money and muscle power playing a large role in elections. In general, there is high degree of volatility in society on account of poor implementation of laws and programmes and poor delivery of public services leading to unfulfilled expectations.

2.1.6 Fulfilment of the human potential and rapid growth are the two fundamental objectives of public administration. The 'non-negotiable' role of the State lies in four broad areas:

1. Public order, justice and rule of law.
2. Human development through access to good quality education and healthcare to every citizen.
3. Infrastructure and sustained natural resource development.
4. Social security, especially for the unorganized sector workers.

2.1.7 Propensity to centralize has been the dominant feature of our administration. We need to truly redesign government on the basis of the principle of subsidiarity. A task which can be performed by a small, lower unit should never be entrusted to a large, higher unit.

2.1.8 India is not unique in the challenges and the problems it is facing. A large number of other countries have struggled for long to forge effective democratic governance. Some of them have managed to provide welfare facilities, design justice delivery systems and contain corruption, pollution and other negative externalities much more successfully than India. There is much to learn from them. Similarly, many 'developmental' States have struggled for decades to raise the growth rate, improve infrastructure, and rapidly increase social capital and alleviate poverty. One can learn a lot from their experiences, too. And, of course, there is much to learn from our own experiences.

2.2 Models of Structural Reforms in Government²

2.2.1 Several attempts have been made to bring about structural reforms in government. An extensive body of literature exists on these attempts. A comparative analysis of these reform measures has been carried out by several researchers and academicians. Three models of public administration reforms have been distinguished by Romeo B. Ocampo³.

- i. Reinventing Government was written to map out "a radically new way of doing business in the public sector" (Osborne and Gaebler, 1993: xviii). According to the authors, reinvention is a "(r)evolutionary change process" that had happened before in the Progressive and New Deal eras in the U.S. and has been occurring again in local governments and elsewhere. Instead of originating the model, they pieced the ideas embodied in it from the actual practices of those who have dealt with government problems in innovative ways. The model represents a basic, "paradigm shift" from the New Deal paradigm of 1930s to 1960s toward the "entrepreneurial government" model that they now advocate. In their own summary:

Most entrepreneurial governments promote competition between service providers. They empower citizens by pushing control out of the bureaucracy, into the community. They measure the performance of their agencies, focusing not on inputs but on outcomes. They are driven by their goals-their missions-not by their rules and regulations. They redefine their clients as customers and offer them choices... They prevent problems before they emerge, rather than simply offering services afterward. They put their energies into earning money, not simply spending it. They decentralize authority, embracing participatory management. They prefer market mechanisms

²Extracted and adopted from – Models of Public Administration Reform: "New Public Management (NPM)" by Romeo B. Ocampo.
³College of Public Administration, University of the Philippines.

to bureaucratic mechanisms. And they focus not simply on providing public services, but on catalyzing all sectors-public, private, and voluntary-into action to solve their community problems (Osborne and Gaebler, 1993: 19-20).

- ii. Re-engineering or BPR "is the fundamental rethinking and radical redesign of business processes to achieve dramatic improvements in critical contemporary measures of performance, such as cost, quality, service, and speed" (Hammer and Champy, 1993: 32). It represents an effort to turn back the Industrial Revolution and reassemble the tasks and functions taken apart by the 19th century principles of the division of labor (Hammer, as cited by Fowler, 1997: 36-37). According to Fowler, its many features include the following results of the desired changes:
 - (1) Separate, simple tasks are combined into skilled, multi-functional jobs.
 - (2) The stages in a process are performed in their natural order.
 - (3) Work is performed where it is best done-some parts of the process may thus be outsourced.
 - (4) The volume of checking and control of separate tasks is reduced.
 - (5) There is total compatibility between processes, the nature of jobs and structure, management methods, and the organization's values and beliefs.
 - (6) It is recognized and exploited as offering many opportunities for the redesign of the work systems and the provision of information to enhance devolved decision-making.
 - (7) Processes may have multiple versions to cope with varying circumstances.

Re-engineering is thus more inward-looking and gives greater attention to the role of information technology (IT). BPR has been extensively applied in private business, but only to a limited extent in the public sector. However, it shares certain areas of concern with reinvention, as indicated by the following aims:

- (1) Managerial hierarchies and organizational structures are flattened.

- (2) Rewards are given for the achievement of results, not simply for activity.
 - (3) Work units (i.e., sections or departments) change from functional units to become process (often “case”) teams.
 - (4) Customers have a single point of contact with the organization.
- iii. New Public Management (NPM) is “shorthand for a group of administrative doctrines” in the reform agenda of several OECD countries starting in the 1970s. According to the OECD (Kickert, 1997: 733), “a new paradigm for public management” had emerged, with eight characteristic “trends” (listed below in modified order, to range from internal to external concerns):
- (1) strengthening steering functions at the center;
 - (2) devolving authority, providing flexibility;
 - (3) ensuring performance, control, accountability;
 - (4) improving the management of human resources;
 - (5) optimizing information technology;
 - (6) developing competition and choice;
 - (7) improving the quality of regulation; and
 - (8) providing responsive service.

2.2.2 The Commission has already examined the business process re-engineering concept in detail in the Indian context in its Reports on e-Governance and Citizen Centric Administration. As NPM is in many ways a derivative of the reinvention model, the Commission has examined its features in various countries such as the UK, USA, Thailand, Australia etc.

2.3 Origins of NPM

2.3.1 New Public Management (NPM) – has also been called market-based public administration, managerialism, reinventing government, and post-bureaucratic model. It evolved in Britain and the US, and later spread to most of the affluent liberal Western Countries and also to several developing countries like Ghana, Malaysia, Thailand, and Bangladesh. Its

initial growth can be traced to the relatively minimalist, non-interventionist state ideology of the late 1970s and early 1980s, but the basic approach of NPM was later adopted by a number of countries that did not necessarily share this ideology. NPM sought to bring management professionalism to the public sector without necessarily discarding the active role and welfare goals of the State. NPM also offered the possibility of a more cost-effective and citizen-friendly State, and the possibility of substantially enhancing the governance capacity of the State for tackling the highly complex challenges of our times.

2.3.2 Ambit of NPM

2.3.2.1 Sarker has enumerated the salient features of NPM (Sarker, 2006, p. 182; op. cit., Khandwalla) as follows:

- A shift from focus on inputs and procedures alone to include outputs and outcomes.
- Shift towards greater measurement in terms of standards, performance indicators etc.
- Preference for ‘lean’, flat, specialised and autonomous organizational forms such as executive agencies.
- Widespread substitution of hierarchical relations by contractual relations both inside government organizations and between government bodies and outside entities.
- Much greater use of market or market-like mechanisms for delivering public services, such as through partial or full privatization, outsourcing, and the development of internal markets.
- Much greater public sector-private sector/civil society partnerships and the use of hybrid organizations.
- Much stronger emphasis on efficiency and individual initiative.
- Greater ability to discharge government functions effectively (in terms of public policies) and equitably.

2.3.2.2 Siddiquee has added the following additional features (Siddiquee, 2006, pp. 340-1; op. cit., Khandwalla):

- "...decentralization of authority with a wide variety of alternative service delivery mechanisms including contracting out and quasi-privatization;
- downsizing..., deregulation, and employee empowerment in the public sector;
- private sector-style management and flexibility;
- cost recovery, entrepreneurship by allowing employees/team to pursue program delivery outside established mechanisms, competition between public and private agencies for the contract to deliver services;
- improving quality of regulation and the management of human resources; and
- a management culture that emphasizes the centrality of citizens/customers and accountability for results."

2.3.3 Evolution of NPM

2.3.3.1 States opting for NPM have not necessarily incorporated all these elements of NPM. Most countries have been selective in incorporating those elements of NPM that they felt were best suited to their individual administrative milieu, economic and social condition, and governance culture. NPM has also been an evolving concept with States experimenting with approaches and mechanisms noted earlier. These include policy guidance to the government through stakeholders' councils (the 'deliberations councils' of Japan) for the management of sectors, industries, issues etc., departmental boards as in Britain, policy analysis and evaluation cells as in Japan and other countries, the minister's ability to reach beyond the senior bureaucrats to 'buy' policy advice, and corporatization of government functions, as in New Zealand, e-governance, as in Britain, Malaysia, China, and several Indian States, and a whole host of management tools and techniques like Total Quality Management (TQM), operations research, HRD, market research, etc.

2.3.3.2 A welfare State is expensive. The average percentage of state expenditure to GDP in the West is around 40%. To prevent negative externalities like pollution by industries or drug abuse or such abuses as child labour, the liberal state has had to set up many surveillance departments; similarly, to provide welfare measures to the citizens, such as medical care and unemployment and old age benefits, the State has had to enlarge its bureaucracy.

2.3.3.3 In the 1970s and 1980s, this enlargement of the State led to cries of inefficiency, red tape, excessive regulation, high tax burden and high national debt in the U.S. and Britain,

and in turn incited their politicians to seek votes by claiming to be able to 'roll back the State'. Some of these politicians indeed attained power, most notably in the US (President Reagan) and the UK (Prime Minister Thatcher). Britain and the US initiated major attempts to reform the government and enhance its governance capacity in response to the public perception that their bloated bureaucracies were not cost effective in terms of the services rendered to citizens. These changes were adopted by many countries, and fructified into a new paradigm of public administration called New Public Management (NPM). In the following sections, the public administration changes in the US and Britain in the 1980s and some that began much earlier, are briefly analysed.

2.3.4 Reforms in Public Administration in the USA

2.3.4.1 In the 1960s, Robert McNamara, formerly President of Ford Motor Company, introduced 'managerialism' in the US Department of Defense when he became Defense Secretary under President Kennedy (Smalter and Ruggles, 1966). When he joined the government, he found that the three Services – Army, Navy, and Air Force – pursued their own agendas with little coordination and much rivalry. Budgetary requests were not backed by clarity about what would be delivered in terms of the different defense missions that the armed forces could be called upon to perform. He brought in the concept of integrated missions that cut across jurisdictional boundaries and required an effective integration of resources and skills. He introduced the notion of running five-year budgets (rolling plans) for each strategic programme. He also introduced the culture of questioning all assumptions and assertions, of quantifying costs and benefits, of using techniques like project evaluation and review (PERT) and critical path method (CPM) to cut costs and delivery times of projects, the use of mathematical techniques for optimizing resource allocation (operations research), network planning, value engineering, and a detailed planning, programming, and budgeting system. This managerial culture gradually spread to several other departments of the federal government.

2.3.4.2 The vast increases in spending by the federal government in the 1960s and 1970s on account of new welfare schemes (medical care, social security etc.) led to a backlash from the voters. There was general public perception of inefficiencies and waste in government. In the 1980s, President Reagan rode to power on the slogan of cutting down the "big, bad, wasteful state". The President's Council on Integrity and Efficiency was appointed in 1981, with the mandate of recommending measures for greater economy and delivery effectiveness of the government's various projects and ongoing programmes; protection from fraud, especially in government contracting and purchasing; more effective financial management; better information processing; and greater use of professional expertise and management tools in

decision making. Its recommendations led to recovery proceedings against vendors etc. for \$5 billion though only a seventh was actually recovered, and it was claimed that an estimated \$57 billion worth of assets was more effectively used than in the past.

2.3.4.3 The Grace Commission, set up in 1982, was a major initiative of President Reagan for securing government reform as desired by the private sector. It interviewed some 2000 businessmen to find out how wasteful and mismanaged they perceived the federal government to be. Some 2500 specific recommendations were provided by the Grace Commission for getting rid of wasteful programmes, removal of red tape, and divestiture of assets of the federal government, etc. which, it claimed, would save the government \$424 billion in three years. These recommendations were controversial. However, the White House claimed later that 80% of the prospective savings could be achieved.

2.3.4.4 President Reagan also ordered all government departments and agencies to establish productivity and quality priorities, and install an incentive system to reward high achievement. He also encouraged the practice of total quality management of administration. A deregulation drive was launched under which regulations were reduced by 5% per year from 1982 to 1992, an initiative that is increasingly criticized now that the recent financial sector meltdown is linked by many to the indiscriminate deregulation of the sector going back to the Reagan administration. He also devolved many more responsibilities on the States for executing programmes funded by the federal government. The Office of Privatization was established in 1988, and the Organizational Excellence Project was initiated to document and disseminate cases of excellence in the federal government.

2.3.4.5 Subsequently, an influential book on better governance by David Osborne and Ted Gaebler, titled *Reinventing Government* (Osborne and Gaebler, 1992), drawing many of its ideas from the reforms in Britain in the 1980s, became an inspiration for the Clinton presidency. Its chief tenets were:

1. The government should concentrate on catalyzing various social and economic activities. It should steer, that is, give broad support and direction, rather than get involved in rowing, that is, in actual operations. It should steer rather than row.
2. The government should empower communities to serve themselves rather than the government itself getting involved in community service activities. The services in which community control can be especially beneficial could be health, schooling, and welfare related services.

3. The government should set out to create competition in public service delivery so that citizens, as customers, get the best value for money. For example, monolithic public sector organizations could be broken up into numerous units to foster competition; public services could be contracted out to the best bidder, and bidders could include public as well as private sector agencies; and an option could be given to government agencies to buy from inside the public sector or outside it. Privatization of a government activity or service could be done in such a way as to promote competition, for example, by handing it over to several parties rather than a single party.
4. The government should be transformed from being rules-driven to being mission-driven, that is, driven by a vision of excellence and a sense of mission.
5. The government should be results-oriented, and fund outcomes rather than inputs. The tendency in democratic governments is to worry about whether the budgeted expenditure is incurred or not, and whether government rules have been followed or not in incurring it. Instead, the stress should be on getting results, even if it means liberalizing the budgeting rules and regulations, such as by permitting agencies to reallocate money from one head to another freely, or to carry forward the unspent balance next year without prior government approval.
6. The government should be customer-driven, meeting the needs of the citizen-customer rather than mainly the needs and requirements of the bureaucracy. This could be done through customer surveys and follow-up assessments of changes introduced as a result of such surveys, compulsory minimum contact of each staff member with the customers of the government agency or department, setting up of customer councils for feedback, of focus groups for dialogue on a new service or service modification, creating electronic facilities for customers to communicate directly with an agency, customer service training for agency staff, test marketing of new services, giving of quality guarantees to customers, use of undercover inspectors to monitor public services, the setting up of efficient complaint registering and complaint tracking systems, etc.
7. The government should become more business-like, and try and earn what it spends on its various activities. Thus, its agencies should price their services rather than give them gratis, and price them to generate a surplus. Having to support activities on their own would make these agencies value efficiency much more.

8. The government should concentrate on prevention rather than cure, and learn to anticipate problems. Governments generally tend to be reactive and that too slowly. Also, often governments undertake activities without thinking through their wider implications for pollution, environmental degradation and effects on disadvantaged groups. Anticipation of these consequences could lead to more effective plans.
9. The government should decentralize its operations and learn to get its work done through participative management and teamwork rather than hierarchically through the orders of bosses. For example, the bulk of authority over schools could be transferred from the local government to teams of principals, teachers, and parents; a field laboratory to test creative policing ideas could be participatively set up; staff meetings could be held to brainstorm on how to rehabilitate a moribund sanitation department, etc.
10. The government should harness incentives and markets rather than controls and regulations to bring about desired changes, such as by offering guarantees for educational loans by banks to students rather than give loans itself, by creating a secondary market for housing loans, by taxing pollution at punitive rates rather than banning it, and by providing tax credits or vouchers to low income families to get child care from the market.

2.3.4.6 In 1993, President Clinton launched his own reinventing initiative called National Performance Review (NPR). The mission of NPR was to shift the federal government's focus from red tape to results by reinventing and redesigning government systems, agencies and programmes to make them more responsive to their 'customers', and to streamline the administration to make its operations cost-effective and its managers more accountable and empowered. The NPR team heard more than 30,000 citizens and representatives of hundreds of organizations. It also sought the experiences of State and local governments that had restructured themselves. The NPR team led by Vice President Al Gore made some 1250 recommendations, which were supported by 2500 pages of annexures. The NPR effort was continued beyond this first phase with a much smaller staff. It summarized the work of federal agencies and produced status reports to document progress. In the second phase, Gore was asked to focus more on what the government did. A preliminary assessment of NPR indicated that as of end 1995, nearly a third of its recommendations had been enacted, resulting in estimated savings of nearly \$60 billion. Some 2000 field offices were closed and 160,000 positions were eliminated. The US Congress passed 36 NPR-related legislations. Scores of agencies began to measure their performance, and over 200 developed and posted more than 3000 customer service standards. The federal government workforce was cut by

over 17% (Kamarck, 2002; op. cit., Khandwalla).

2.3.4.7 How good was the US government during the period of the reform? Its scores on governance quality for 1997-98 were 1.37 for government effectiveness (broadly, the ability of the government to pursue its priorities such as encouraging business, delivering quality public goods and services, and the control of waste in government); 1.10 for political stability (broadly, the absence of social unrest, radicalism, and coercive governance); and 1.52 for voice and accountability (broadly, democratic functioning and the rule of law) (Kaufmann 0.02 and Kraay, 2002). The scores of India and China for that year were far lower -0.26 and .02 for governance effectiveness; -0.04 and 0.48 for political stability; and 0.36 and -1.29 for voice and accountability respectively. For each dimension of governance quality, 0 represented the average score for 150-plus countries. While the US scored well, it was far behind several other States like Singapore, UK, Canada, New Zealand, Australia, and Germany. Among these States, on political stability, New Zealand, Singapore, Germany, and Australia had higher scores. On voice and accountability, however, only Australia had a higher score. Thus, while the US outscored India and China hands down, its governance quality appeared to be mediocre among its peer group. The US economy grew at around 3% per annum during the 1980s and the 1990s – about the average for Western liberal States, but far below the growth rates of Singapore and Hong Kong among the affluent states and far below the growth rates of India, China, and several other developmental states. Thus the NPM initiatives in the US, while significant in reducing government waste and inefficiency cannot be considered an unqualified success particularly in the light of recent events that have highlighted the perils of indiscriminate deregulation.

2.4 Reforms in Public Administration in the UK

2.4.1 The UK has had a long history of public administration reform many of which have influenced reforms in India. The charter of civil and political liberties that King John signed in 1215, called the Magna Carta, paved the way for parliamentary democracy, and earned the British parliament the sobriquet of Mother of Parliaments. In the mid-1850s, Britain was one of the first nations to turn a frequently nepotistic civil service into a meritocratic civil service that significantly increased its governance capacity, and made it possible for Britain to rule a sixth of the globe. The commissioning of the Northcote-Trevelyan Report was a landmark. A change was made from a sinecures-oriented system to a merit-based system. Borrowing from the experience of East India Company in innovating open competitive examinations in 1853, the N-T Report enunciated the following principles that have remained the backbone of the UK Civil Service (and of Indian bureaucracy):

1. Merit-based selection

2. Honest, impartial, and non-political service
3. High standards of probity and propriety
4. Careerist service
5. Recruitment of gifted generalists
6. Monopoly on professional advice to ministers
7. Self-regulation by the civil service

2.4.2 The Labour Government commissioned the Fulton Committee in 1968, which called for a more professional service, with more modern managerial skills, and greater openness to talent from lower ranks and from outside. It also called for greater managerial accountability via executive agencies.

2.4.3 Britain also pioneered the welfare State, which then spread all over the West. Britain's post-1945 welfare State, however, created a vast, expensive and often slow-moving bureaucracy that irked citizens, and in 1979, Margaret Thatcher was voted to power on promises to get the State off the back of the people. She privatized 100 billion pounds (about Rs. 850000 lakh crores at the current exchange rate) of the assets of public sector enterprises and other entities. This enabled ministers and senior bureaucrats to pay greater attention to the effective management of the rest of the State. The number of civil servants decreased from 751000 to 460000. From 15 general grades, a new Civil Service recognized only the top five grades. All other pay and grading was decentralized to departments and executive agencies. Several services, including IT, were privatized. She increased the governance capacity by a number of steps. She brought in a performance management system that held departments accountable for quantified targets; carved out well over 100 semi-autonomous but accountable executive agencies out of lumbering departments with professionals as heads on contract appointments and performance incentives; tried to instill a culture of cost consciousness by having government bodies perform market tests for the services they provided; devolved more authority to officials and local government bodies; got rid off many irksome regulations; promoted public-private partnerships and so forth.

2.4.4 Margaret Thatcher's successors have retained the basic character of the changes but have tried to make the government much more customer-friendly through such devices as citizens' charters and national standards of service. John Major, who succeeded Mrs. Thatcher as Prime Minister, emphasized quality and responsiveness to the citizen-customers. National standards of quality in the rendering of public services were developed and enforced. Citizens' charters

were publicly announced by each department and executive agency. These listed the standards of service that 'customers' were entitled to and the grievance redress mechanisms including compensation to an aggrieved customer. Quality auditing was stepped up.

2.4.5 Tony Blair, the Labour PM, also built on these reforms by strengthening 'customer' orientation and sharpening the focus on users and their needs, arranging delivery of services in user-friendly ways, and enabling citizens to avail services from multiple suppliers to induce competition and enable the customer to get best value for money. Three-year 'Public Service Agreements' were introduced under which departments publicly stated the outcomes citizens can expect from the department's spending, and disclose explicit productivity and performance targets. Greater 'joining up' of government was attempted to improve the strategic capability to respond to contingencies at the heart of the government, and the capacity to respond holistically to issues and problems that could not be tackled satisfactorily by any single department or agency. More specialist skills were brought into the Civil Service. The Civil Service has been opened up to include people from the private sector and civil society, with encouragement to civil servants to have stints in these sectors. Fast tracking for high potential civil servants was tried. Policy-making was made more innovative and strategic. Getting feedback and participation of users of public services was institutionalized by setting up 'Service First' and 'People's Panels'. The e-governance programme was stepped up to ensure that all public services related information was available online by 2005 through initiatives like 'Office of the E-Envoy' and 'UK Online'.

2.4.6 Following the recommendations in the mid-1990s of the Nolan Committee on standards in public life, a civil service code of conduct was drawn up and has been incorporated into law in 2004. The Centre for Management and Policy Studies has been created for HRD in the government. The attempt has been to shift through training from a mindset of an organization-centred service to a citizens-centred service; from preserving the status quo to change and innovation; from procedural orientation to results orientation; and from monopolistic provision of services to competitive provision of government services. 360-degree appraisals have been introduced for evaluating civil servants in a more objective manner. To protect civil servants from undue pressures from bosses, politicians, and businessmen, a reporting and redress system was set up. The complaint must first be addressed to the department head, and if this does not elicit the desired response, the complainant could approach independent Civil Service Commissioners. A Delivery and Reform team with seven sub-teams was set up under the Cabinet Secretary to drive the agenda forward.

2.4.7 The upshot of these changes appears to be a relatively high quality public administration. In a study on effective governance of 150-odd countries, Kaufmann and Kraay (2002) scored UK 1.97 on 'government effectiveness', 0.92 on 'political stability', and 1.51 on

‘voice and accountability’ for the year 1997-8 (score of 0 being more or less the average for many countries), far higher than India. Another upshot may have been superior economic performance by Britain. Britain was considered the sick man of Europe in the 1960s and 1970s. Its annual GDP, growth rate was 2.3% per year, versus 4.0% of its main European rivals, namely France, Germany, and Italy. During the 1980s, however, when Britain went full tilt at public administration reforms and its rivals did not, Britain’s growth rate was about 40% higher than that of these countries during the period.

2.5 Reforms in Australia

2.5.1 Unlike the UK, Australia is a vast country with a relatively small population of 20 million. It is a federal polity while the UK is a unitary state. Australia, like Britain, is a parliamentary democracy. A number of changes were made in the federal government beginning in the early 1980s to align its polity with market economy, design a state that could enhance Australia’s economic competitiveness, and incorporate some of the better features of effective corporate management (Dawkins, 1995; Dixon, Kouzmin, and Korac-Kakabadse, 1996; Khandwalla, 1999; Prasser and Northcote, 1992). The Australian government relied a lot on consultation and consensus in getting the bureaucracy to cooperate with it. In the Westminster model of parliamentary democracy adopted by Australia, the Cabinet meets weekly to take collective policy decisions. It is assisted by a few Cabinet standing committees that deal with the economy, structural reform and social policies. The Cabinet and its standing committees are assisted by a bureaucratic apparatus that makes a variety of perspectives and considerations available to the political masters. In 1987, many departments of the government that were closely inter-dependent, such as, foreign affairs and trade, were amalgamated. The number of departments was reduced from 26 to 16. Thereafter, each department was represented in the Cabinet by a minister. This reportedly improved coordination as well as decision-making at the Cabinet level, and also cut down substantially the volume of business discussed in Cabinet meetings.

2.5.2 To get better value for the taxpayer, and to ensure that the public sector was responsive to the priorities of the political leadership and accountable to it, a number of changes were initiated in the public sector.

2.5.3 Public service officials were turned into managers. A meritocratic Senior Executive Service (SES) was created as a cadre whose members could be assigned responsibilities for managing programmes and for giving policy advice. Financial Management Improvement Programme and Programme Management and Budget increased the responsibility of public officials for results. Public sector managers were given the authority to create and abolish positions, appoint, transfer, and promote staff, etc., in their areas of jurisdiction. Only overall personnel policies and standards were set by the once all-powerful central agencies. The central personnel function

of the Public Service Board was abolished and a Public Service Commission replaced it with limited functions. SES and Merit Protection and Review Agency was entrusted with the task of fostering merit in public sector appointments. Over 100 separate office-based grades and classifications were merged into one administrative service structure. All departments and their staff units were asked to make plans. Performance-based pay was introduced at senior levels and performance appraisal was improved.

2.5.4 The Management Information System was improved. Each department began making three years’ advance estimates of its expenditures, and its annual budget was based on them. In this way, departments had a better idea of what resources would be available to them for three years at a time. Various heads of expenditure were consolidated to simplify budgeting.

2.5.5 Public managers could carry over financial surpluses from one year to the next, and were allowed to borrow against the budget for the next year. This gave them much greater financial flexibility. An annual automatic percentage reduction in every agency’s running costs was mandated to force them to be efficient. This ‘efficiency dividend’ amounted to about A\$80m. a year. More than the quantum of saving, this automatic percentage reduction institutionalized a mindset of looking for efficiency, productivity, and cost saving. An Efficiency Scrutiny Unit was set up. Each government programme was required to be evaluated at three-to-five year intervals by the agency in charge of it, and the results of the evaluation were provided to the Department of Finance. This institutionalized periodic reflection and learning from such reflection, often in short supply in systems overloaded with routines, standardization, and meeting deadlines. The Cabinet got directly involved in the appointment of senior public servants, strengthened ministerial offices with personal advisers and extensively used private consultants.

2.5.6 To improve fiscal discipline the government not only published estimates of future spending under new policies, but also estimates of savings from modifying or discontinuing existing policies. The projected figures became the basis for actual budgets. Ministries proposing policy changes involving additional spending had to propose ways of offsetting the additional spending, so that total government spending remained within the limits decided by the Cabinet. As a consequence, Australia’s fiscal deficit, which was 4 per cent of GDP in 1983, turned into a surplus by 1990.

2.5.7 The user-pay principle was introduced and encouraged under which agencies had to pay for availing the services of other government agencies. For example, earlier the Attorney General’s department provided free legal advice to, and legal representation for, other government departments. Now, except for advice on constitutionality, these services had to be paid for, and the departments had the choice of getting legal services from other sources.

Thus, such 'staff' departments now had to compete for survival, and had, therefore, to become more 'customer' friendly.

2.5.8 The government followed a policy of retaining the ownership of Australian public enterprises but by instituting an arm's length relationship with them and ensuring that they were autonomous and professionally managed (Callender and Johnston, 1997; Dawkins, 1995; op. cit., Khandwalla). The government also followed a policy of encouraging competition in industries, enhancing benefits to customers of these enterprises, benchmarking with the world's best operating practices, and also pursuing social goals in accordance with government policy. The performance of Australian public enterprises significantly improved under this policy regime (Dawkins, 1995).

2.5.9 A programme of commercialization of the Australian public service was launched in the late 1980s (Dixon, Kouzmin, and Korac-Kakabadse, 1996; op. cit., Khandwalla). This meant creating markets for the delivery of these services and re-designing the service organizations to operate in a competitive environment. Over the first four years the inception of this initiative (1988-89 to 1992-93) the commercial and quasi-commercial revenues of the agencies involved in this initiative nearly doubled, and these covered nearly 30% of the total running costs of these bodies in 1992-93 as compared to about 15% in 1988-89. Commercialization was pushed the hardest in administrative, health, housing, and community services, and it continued its gentler penetration in a host of other areas like local government services, industry, regional development, etc. The degree of commercialization was negligible in employment, education, training, tourism, social security, trade, foreign affairs, etc.

2.5.10 Summing up, the Australian NPM reforms seemed to have improved the information available to the managers of the public services for discharging their accountability, and appeared to have enhanced their concern with outcomes and effectiveness of programmes (Dixon, Kouzmin, and Korac-Kakabadse, 1996). Australian public enterprises appear to have improved their performance significantly under a regime of autonomy and professional management (Dawkins, 1995). Australian governance scores in 1997-98 were 1.63 for voice and accountability, 1.18 for political stability, 1.46 for government effectiveness (Kaufmann and Kraay, 2002; op. cit., Khandwalla). These increased marginally in 2000-01. By the standards of Western States, the economy was growing well. After 1980, the annual growth rate has been about 3%, reasonably high for the high per capita income group of countries that have collectively been growing at about 2.5% per annum.

2.6 Reforms in Thailand

2.6.1 After democratic rule was restored in Thailand in 1991, a small group of technocratic reformers in government sought to modernize the functioning of the government throughout the 1990s. By the 1980s, the State's staff had got bloated (42% of the budget went in meeting

staff salaries). At the same time the compensation the staff received was inadequate. Major reforms were undertaken during 1991-97 (Bowornwathana, 2006; Painter, undated; UN, 1997; op. cit., Khandwalla).

2.6.2 The 1991 reforms were aimed at improving efficiency, quality, and ethical orientation in the civil services. The government evolved a strategy of changing the role of the government from micro-management to policy-making, facilitating private enterprise, and monitoring the economy. Reforms in subsequent years aimed at performance improvement, compensation reform (better parity in compensation was attempted both within government and also vis-à-vis the private sector), downsizing, people's participation, and decentralization to make administration more citizen-friendly. Government agencies providing public services and engaged in international trade were re-engineered. Management by results was sought through planning and monitoring. Agencies were given greater autonomy in personnel decisions. The State was downsized through attrition and right-sized through redeployment.

2.6.3 Political reforms to increase the stability of governments were introduced. And after 1997, in the wake of the East Asian financial crisis, the technocrat reformers in government sought the help of the World Bank and other donors. A reform plan was formulated in 1999 which was a mixture of structural adjustment and NPM measures. The five main components were: revision of roles, functions and management practices of departments; reform of budgeting, procurement, and financial management; personnel management reform; legal reform; and reforms related to corruption and ethics. The reforms were put under the charge of a Public Sector Development Commission. The reform plan focused on streamlining and rationalization; budgetary and financial reform; HRM and compensation reform; 'work culture and values'; modernization through e-governance; and encouragement of public participation.

2.6.4 An outputs-based performance budgeting system was adopted with the help of World Bank consultants and agencies had to adopt new/modified systems in budget planning, output costing, procurement management, budget and funds control through block grants and accrual accounting, financial and performance reporting, asset management and internal audit before they could get funds. The Budget Commission signed a public service agreement with each minister on fiscal and service delivery targets, and in turn service delivery agreements were signed with department heads, and ministers and department heads were evaluated against their promises and deliveries. Open recruitment, performance-linked pay, contractual arrangements for top executives were favoured.

2.6.5 Governors of the provinces were turned into the CEOs of their provinces, and they were made accountable for planning and coordinating development. They were given a two-week

induction course by international experts and by the Prime Minister. Performance agreements were drawn up for the governors. These governors were mostly appointed from within the Ministries. Ministries (14) and Departments (126) were restructured. A number of people were brought in at senior positions from outside. Ministries could form clusters of related departments, and common services could be pooled in one of the departments. High fliers were identified to fill new positions. Service delivery units were planned in each department, each with devolved administrative powers, performance targets, and service agreements and run by an appointed board.

2.6.6 Corruption was a major issue in Thailand and a survey had revealed that 40% of senior officials had reported that they had to ‘buy’ their positions. So, lists of qualified personnel were drawn up who had undergone extensive training, and selections had to be made from this list by screening committees and they had to justify their recommendations. An elite Senior Executive Service (SES) was created. A ‘fast track’ system of senior appointments was approved in 2003 for encouraging external applicants. Inter-ministerial job rotations were encouraged to fill vacancies. As a policy, all vacant senior positions were openly announced. Merit pay and performance review was partially implemented for the SES. Performance rewards were allotted to high-performing departments and agencies for distribution to the staff. Performance indicators and performance ratings were implemented. A challenge system was introduced under which government agencies wishing to avail of performance awards would be rewarded if they met at least ten performance targets. Voluntary retirement programs were implemented to downsize the government. In addition, on the basis of job reviews, the bottom 5% were offered training to improve performance, and if improvement did not materialize, they were asked to leave with 8 months’ severance pay.

2.6.7 Thailand also began trying out agencification, though the pattern is somewhat different from the British one. Three new types of Autonomous Public Bodies (APOs) have emerged in Thailand: agency-type APOs (Bowornwathana, 2006); APOs mandated by the 1997 Constitution; and local government APOs. For the first type, the Thai government decided to borrow in 1999 the agencification experiences of Western countries, namely the United Kingdom’s executive agencies and New Zealand’s crown entities. Agency creation was empowered through an Act of Parliament. From 1999 to 2004, 17 agency-type APOs were established. These operated in the areas of education, commerce, tourism and sports, health, social development, culture, science and technology, energy, information technology, agriculture and cooperatives, etc. Their sizes were small. Each was run by a strong Board appointed by the relevant minister. The Board appointed the CEO. The Agency Boards were typically chaired by ministers, permanent secretaries, and other senior bureaucrats and

advisors.

2.6.8 The second type were APOs mandated by the 1997 Constitution to promote governance, transparency, and openness in government, and these were outside the government’s chain of command. They included the National Human Rights Commission, the Ombudsman, the Constitutional Court, the National Counter-corruption Commission, the Election Commission, the Audit Commission, the National Telecommunication Commission, and the National Broadcast Commission. The Thai senate has the power to choose and appoint qualified candidates as members of these APOs.

2.6.9 Under the 1997 Constitution, by 2006 the central government was expected to transfer 35% of its annual budget to local governments by transferring appropriate taxing power. Under a new law, the local bodies (74 provincial, 289 municipal, and 2496 sub-district organizations) have been more empowered and largely taken out of the rule of the Ministry of Interior. These are the third type of APOs.

2.6.10 During the last two years, there has been considerable political uncertainty and agitation in Thailand, but the main features of the administrative restructuring seem to have been retained.

2.6.11 To conclude, NPM in some form or other, is gaining currency in countries, including developing countries with the objective of improving public administration. A 1999 survey indicated that in the last two decades, some 40% of the world’s largest 123 countries had at least one major reform movement that was influenced by NPM, and 25%, including many South American governments, had two or more such movements (Kamarck, 2002; op. cit., Khandwalla). The case studies in this chapter indicate that NPM is not an alien system grafted on unwilling cultures nor is NPM a rigid formula. Rather, it is an approach towards tackling almost intractable problems of governance in a citizen-friendly and efficient manner, an approach that is flexible enough to yield effective local solutions.

2.7 Link between Governance and Growth

2.7.1 Table 3.1 shows the average annual growth rates of the two fastest growing and the two slowest growing countries in each of the decades of the 1960s, 1970s, and 1980s for each of four per capita income classes: those that the World Bank considered ‘low income’, ‘lower-middle income’, ‘upper middle income’, and ‘high income’. The Table also shows the growth rate for each decade of China and India, the two largest nations in the world. As the table shows, there are huge differences in the growth rates of countries in each income class for each decade.

Table 3.1 : Two Fastest and Slowest Growth Rates of Countries for Each Income Class

Annual GDP Growth Rate					
1960s		1970s		1980s	
Fastest	Slowest	Fastest	Slowest	Fastest	Slowest
Low Income Countries					
Togo (8.5)	Haiti (0.2)	Malawi (5.6)	Uganda (-1.6)	China (10.2)	Nicaragua (-2.0)
Pakistan (6.7)	Chad (0.5)	China (5.5)	Ghana (-1.2)	Chad (6.3)	Niger (-1.1)
			Zaire (-0.2)	Pakistan (6.3)	
Lower Middle Income Countries					
Thailand (8.4)	PR if Cibgi (2.3)	Syria (10.0)	Jamaica (-1.2)	Botswana (10.3)	Jordan (-1.5)
Ivory Coast (8.0)	Senegal (2.5)	Paraguay (8.8)	Zambia (0.4)	Thailand (7.6)	Peru (-0.2)
Upper Middle Income Countries					
Iran (11.3)	Uruguay (1.2)	Hong Kong (9.9)	Lebanon (-5.4)	Oman (8.3)	Trinidad & Tobago (-2.5)
Hong Kong (10.0)	Trinidad & Tobago (4.0)	South Korea (9.1)	Argentina (1.9)	Mauritius (6.2)	Saudi Arabia (-1.2)
High Income Countries					
Japan (10.4)	UK (2.9)	Norway (4.5)	Switzerland (0.7)	South Korea (9.4)	UAE (-2.0)
Spain (7.1)	New Zealand (3.6)	Japan (4.5)	UK (1.7)	Hong Kong (6.9)	Kuwait (0.9)
		Ireland (4.0)			
India (3.4)		(3.6)		(5.8)	
China					

Table 3.1 : Two Fastest and Slowest Growth Rates of Countries for Each Income Class (Contd.)					
Annual GDP Growth Rate					
1960s		1970s		1980s	
Fastest	Slowest	Fastest	Slowest	Fastest	Slowest
(5.2)		(5.5)		(10.2)	
Figures in brackets are annual growth rates Source: World Bank's World Development Reports					

2.7.2 Some of these growth rates could be attributable in part to extraneous circumstances like a very low base economy such as of Togo or Chad, or highly favourable commodity price movements during a decade (e.g. Iran), or adverse commodity price movements. But in several cases, governance changes could have been a significant factor in influencing the growth rate. Japan was not a low economic base country in the 1960s. Its high growth rate could be attributed, at least in part, to a series of governance changes, such as an exports-led growth strategy, an industrial strategy that gave priority to heavy and basic industries, the extensive use of ‘deliberation councils’ with representatives of industry, labour, and the academia to help the government to reach consensus decisions, etc. that made it a highly effective developmental state (Campos and Root, 1996; Patrick and Rosovsky, 1976; Shahid Alam, 1989). Governance changes also made Hong Kong a favoured destination for trade and investment (Huque and Yep, 2003). China virtually doubled its growth rate in the 1980s from what it was in the 1970s thanks to the extensive decentralization of powers to the provinces, counties, and even villages that led to a huge upsurge in agricultural and industrial production; government recognition of the private sector as an engine of growth; dismantling of many controls; downsizing of the government; large investment in infrastructure; and invitation and incentives to foreign investors to invest in China (Chai, 2004; Straussman and Zhang, 2001). India’s growth rate picked up in the 1980s mainly on account of the gradual dismantling of the permit-license raj.

2.7.3 IMD (International Institute for Management Development) (2006), Switzerland, has developed a system for ranking nations on ‘competitiveness’. Competitiveness has four components: economic performance, government efficiency, business efficiency, and infrastructure. On the standard of competitiveness, in 2006 (as well as in 2005), the US was ranked first. The next four were Hong Kong, Singapore, Iceland, and Denmark. The lowest ranked among the 60-odd countries for which rankings were done were Venezuela, Indonesia, Croatia, Poland, and Romania. These data suggest that governance capacity, at least in terms of the components of ‘competitiveness’, tends to differ widely among the world’s nations.

2.7.4 A little more direct evidence on differences in governance capacities is provided by Garelli (2006, p. 51; op. cit., Khandwalla), using IMD's data on competitiveness. He has tried to measure the largest negative and positive differences between the government's and the economy's contribution to overall competitiveness for each country. Four of the worst countries on this measure were Venezuela, Argentina, Italy, and Brazil. These were the countries in which growth may have been most impeded by the governance system. Four of the countries that scored best on this measure were Denmark, Jordan, Slovak Republic, and Russia. Governance capacity in these countries seems to have spurred the growth rate of the economy.

2.7.5 These and other studies suggest that governance quality differs greatly between countries. Thus, while innate problems of governance of the State affect all countries, either they do not affect them equally or nations respond to them with differences in effectiveness.

2.7.6 Two studies statistically tried to show the effect of governance quality on various dimensions of the quality of life of citizens of countries. The first study was by Keefer and Knack (1993) which indicated that a strong, efficient, growth-oriented bureaucracy could contribute substantially to a country's growth rate. In a study of a sample of developing and developed countries during the thirty-year period 1960 to 1989, the researchers measured such aspects of bureaucracy as the quality and strength of bureaucracy, absence of bureaucratic delay, corruption, risk of expropriation, and the risk of contract repudiation by the government, and their effect on the per capita growth rates of these countries. The researchers found that each of these bureaucratic dimensions was significantly correlated with the growth rate of per capita income. In other words, improvement in bureaucratic quality, non-expropriation, and contract enforcement, and decrease in bureaucratic delay and in corruption raised the growth rate. The researchers estimated that greater effectiveness of bureaucracy could increase the per capita growth rate by as much as 70 per cent!

2.7.7 The second study was conducted by Daniel Kaufmann and his colleagues at the World Bank (Kaufmann, Kraay, and Zoido-Lobaton, 1999; Kaufmann and Kraay, 2002; Kaufmann, Kraay, and Mastruzzi, 2005). They have made an elaborate study of how six measures of perceived quality of governance affect per capita GDP (in purchasing power parity terms) of 150 plus countries. The six perceived governance quality measures, each an aggregate of a number of sub-measures, are:

- voice and accountability;
- absence of political instability and violence;
- government effectiveness;
- reasonableness of regulatory burden;

- rule of law; and
- absence of graft.

2.7.8 To estimate national scores, they have relied on a wide range of judgmental sources.

2.7.9 'Voice and accountability' measures such features as whether the change of government is orderly or not; whether or not there is a transparent and fair legal system; whether or not citizens enjoy civil rights and political freedoms; whether the press and the media are free; whether governance is free from the military's influence or not; whether the business sector can express its concerns, etc. It broadly measures how democratic the governance is.

2.7.10 'Absence of political instability and violence' measures the perceived absence of social unrest, coups, terrorism, civil war, armed conflict, ethnic or tribal tensions, coercive government, radicalism etc. It broadly measures political stability.

2.7.11 'Government effectiveness' measures whether government policy is pro-enterprise or not; whether there are red tape and bureaucratic delays; the quality and turnover of government personnel; the government's ability to continue its programs; political non-interference in public administration; the quality of public goods like roads, public health, mail services; government's efficiency in delivering public services; lack of waste in government expenditure; the honouring of commitments by an incoming new government; the effective implementation of government decisions, etc.

2.7.12 'Reasonableness of regulatory burden' measures the burden of regulations on business; government intervention in the economy; wage/price controls; tariff barriers; regulations on capital flows; banking regulations; foreign trade regulations; restrictions on non-residents vis-à-vis ownership of business, shares, etc.; barriers to entry in banking and other sectors; freedom to compete in the market place; whether anti-monopoly legislation is effective or not; dominance of state-owned enterprises; state interference in private business; tax system that hinders competitiveness etc. The lower the score, the more reasonable the regulatory burden.

2.7.13 'Rule of law' measures whether crime is properly punished or not; enforceability of contracts; extent of black market; enforceable rights to property; extent of tax evasion; prevalence of rule of law; police effectiveness; protection of intellectual property; judiciary's independence; ability of businesses and people to challenge government action in courts etc.

2.7.14 'Absence of graft' measures relative absence of corruption among government political and bureaucratic officials; of bribes related to securing of permits and licenses; of corruption

in the judiciary; of corruption that scares off foreign investors, etc.

2.7.15 Underlying the choice of these six measures of governance is a model of an ideal State: one that is democratic, transparent, relatively free from corruption, business friendly, committed to the rule of law and law and order, competition, deregulation of the economy, protection of private property (including intellectual property), and the provision of public services. This is the state one associates with Western democracies, except that some significant features of Western democracies such as welfare coverage, affirmative action to reduce inequalities, and conservationist action are absent. Absent also is a significant feature of the growth story of many Third World economies and developmental efforts.

2.7.16 The information for these six measures was secured from a number of sources, mostly Western. The sources included World Bank's World Development Report, World Economic Forum's Global Competitiveness Survey, Freedom House's Freedom in the World Poll of Businessmen, Heritage Foundation's Economic Freedom Index, Wall Street Journal, IMD's World Competitiveness Yearbook, Gallup International's 50th Anniversary Survey, Standard and Poore's Country Risk Review, Business Environment Risk Intelligence's Business Risk Service, etc.

2.7.17 Kaufmann and his colleagues sought to measure the effect of the six governance variables on the level of a country's per capita GDP in purchasing power parity terms, the country's infant mortality per 1000 live births, and adult literacy rate. They studied the effects for each for a number of years beginning in 1997-98. The sample consisted of over 150 countries. They concluded: "Our empirical results show a strong positive causal relationship from improved governance to better development outcomes...These results clearly indicate that there is large payoff in terms of per capita income to improvements in governance. In other words, governance does matter." (Kaufmann, Kraay, and Lobaton, 1999, pp. 15-16). Further, "Improved governance has a strong negative impact on infant mortality...Improved governance also leads to significant increase in adult literacy..." (Kaufmann, Kraay, and Lobaton, 1999, p.17).

2.7.18 It can however be argued that 'good governance' as measured by Kaufmann and his colleagues is a function of economic development rather than vice versa. As countries become affluent, their citizens begin to demand and get better governance, especially when they are democracies, as most affluent countries are, so that better governance becomes a consequence rather than a cause of affluence. Also, affluent countries can afford the expensive bureaucracy, technocrats, tools and techniques (especially IT), and professional managers that can provide good governance. However, Kaufmann and his colleagues have tried to show (Kaufmann, Kraay, and Mastruzzi, 2005) that the effect of per capita income on governance is much weaker

than the effect of governance on per capita income for a sample of the poor countries of sub-Saharan Africa, and therefore the influence of affluence on governance is negligible.

2.7.19 The researches of Keefer, Knack, Kaufmann and their colleagues do indicate that governance matters, as far as levels of material comforts are concerned. But there are some important caveats that need to be kept in mind in interpreting the findings of Kaufmann and his colleagues. High per capita income, as in Western countries, is the end-result of centuries of development, and except for the past few decades, the states with high per capita incomes did not necessarily score high on the governance measures of Kaufmann and his colleagues. Britain, France, Germany, Japan, and the US were quite interventionist during several decades of the 19th and 20th centuries. Secondly, for emerging economies, the point of concern is not high per capita income that the West enjoys (it will take decades before Third World countries approach the levels of Western affluence) but high growth rate of GDP that generates the surpluses for further investment and increased spending on poverty alleviation, rural development, urban renewal, etc. Do the six measures of governance of Kaufmann and his colleagues impact the rate of growth the same way as they do per capita income?

2.7.20 Probing this issue is important because in a number of countries the phase of their fastest growth was not when they became true blood market economies but when their governments spurred economic growth through a variety of measures not assessed by Kaufmann and his colleagues, namely large planned developmental expenditure by the state, the setting up of a number of strategic public enterprises, protection and nurturance to infant industries, forced savings, large investments in poverty alleviation, rural development, social capital building etc. For instance, Brazil's era of rapid growth was not in the 1980s and 1990s when it availed of structural adjustment loans from international financial institutions and tilted towards a private sector friendly market economy and away from state-led development, but in the 1960s and 1970s when there was strong-arm rule and a huge state-led developmental effort (along with a robust private sector). This was also true of the Soviet Block in the 1950s and 1960s, and to some extent also of Japan from the 1950s to 1970s, South Korea from the 1960s to the 1980s, several ASEAN countries in the same period, and so on. Indeed, several emerging market economies faced sharply reduced growth rates when they heeded international financial institutions and liberalized and globalized their economies and sharply reduced the government's investment expenditures – Russia's GDP declined by about 50% in the 1990s following the beginning of its market economy-oriented liberalization in 1991, an experience several East European countries also shared in the 1980s and 1990s.

2.7.21 Indeed, China and India may be the major exceptions to the trend of liberalization eating into the growth rate of statist economies, at least for an initial decade or so. In both these countries, the growth rate has perked up after liberalization began in earnest. But in both these countries, the state has remained developmental, with a large and dynamic public sector working along with a growing and dynamic private sector to deliver unprecedented growth rates.

2.7.22 The disconnect between growth rate and good governance as measured by Kaufmann and his colleagues is demonstrated in Table 3.2. It shows the governance scores of nine large emerging market economies (almost all are federal states with populations in excess of 100 million, and per capita purchasing power parity GDP of below US \$10000) for three of the governance measures of Kaufmann and his colleagues (governance effectiveness, political stability, and voice and accountability) for the year 2000-01, and the average growth rate of these countries during 2000-04 (see World Bank's World Development Report, 2006, Table 1, p. 292). These countries represent half of the world's population. Each country is also ranked vis-à-vis each governance variable, with a rank of 1 for the best score among the nine countries and 9 for the worst score. As a summary score of governance quality, these ranks are summed up for each country (the larger the sum of ranks, the worse the measured quality of governance). The table also provides information for seven benchmark countries for governance quality, namely Australia, Canada, Germany, New Zealand, Singapore, UK, and US. They are not only widely considered to be effectively administered, but have amongst the highest scores on perceived quality of governance in the Kaufmann et al studies.

2.7.23 As Table 3.2 shows, among the nine large emerging market economies, the ones with the worst governance scores (Nigeria, Indonesia, Pakistan, and Russia) average a growth rate that is no different from the average of the growth rates of the best governed of these states (Mexico, Brazil, India, and China). Also, while all but two of these nine States have recorded a growth rate exceeding 4%, none of the seven 'benchmark' States, with governance scores far higher than those of the nine emerging market economies, has managed to grow at even 4%.

2.7.24 Obviously, high growth rate is not the be all and end all of good governance. Growth must be accompanied by improvements in the quality of life through fairer availability of public goods and services, better control of negative externalities like pollution and drug adulteration, fewer hassles for the average citizen to get needed permits and licenses, positive discrimination in favour of the disadvantaged, strong poverty alleviation initiatives, etc. In

Develop- mental States	Governance Effectiveness	Rank	Political Stability	Rank	Voice and Accountability	Rank	Sum of Ranks	Growth Rate of GDP 2004-05	Rank
Bangladesh	-0.54	7	-0.57	7	-0.20	4	18	5.1	4
Brazil	-0.27	4	0.47	1	0.53	2	7	2.0	8
China	0.14	2	0.39	2	-1.11	8	12	8.7	1
India	-0.17	3	-0.05	4	0.66	1	8	6.2	2
Indonesia	-0.50	6	-1.56	9	-0.40	6	21	4.6	6
Mexico	0.28	1	0.06	3	0.12	3	7	1.5	9
Nigeria	-1.00	9	-1.36	8	-0.44	7	24	4.9	5
Pakistan	-0.48	5	-0.39	5	-1.43	9	19	4.1	7
Russia	-0.57	8	-0.41	6	-0.35	5	19	6.1	3
Benchmark States									
Australia	1.58		1.26		1.70			3.3	
Canada	1.71		1.24		1.33			2.5	
New Zealand	1.27		1.21		1.59			3.9	
Singapore	2.16		1.44		0.11			2.8	
UK	1.77		1.10		1.46			2.2	
US	1.58		1.18		1.24			2.8	

Sources: Kaufmann and Kraay (2002) and World Bank's World Development Report 2006
 Note: Quality of governance score of 0 = average for the sample of 150-odd countries.
 The higher the sum of ranks, the poorer would be the governance, as evaluated.

Third World countries, forms of governance are needed that facilitate high growth rate as well as improved quality of life and equity. The policy structure for high growth rate, equity, and rising quality of life for the people of emerging market economies, especially those that are disadvantaged, would include liberalization and democratization, a vibrant private sector, a strong but well-managed developmental and poverty alleviation thrust by the State plus good governance as conceptualized by Keefer, Knack, Kaufmann and their colleagues.

2.8 World Bank's Recommendations for Improving Governance Capacity

2.8.1 Concerned about the failures of public administration in many States, especially poor developmental States, the World Bank came out with a number of prescriptions for increasing governance capacity (World Bank, 1997):

1. There should be a two-part strategy for increasing the effectiveness of the State. Part one requires narrowing the gap between the demands on a State and its capabilities to meet these demands, through greater selectivity in the State's priorities. The State should concentrate on the priorities and offload the rest to the civil society and the private sector. Part two requires increase in the capability of the State to manage collective actions efficiently by recharging public institutions.
2. Matching the State's role to its capability implies the following:
 - a. **Redefining of priorities for State action:** Five main tasks lie at the core of every government's mission. Without these, sustainable, shared, poverty-reducing development may be impossible. These fundamentals are: (i) establishment of a foundation of law and prevention of lawlessness; (ii) macro-economic stability (low inflation, containment of adverse balance of payments, etc.) and a 'non-distortionary' policy environment; (iii) investment in basic social services like health and education and infrastructure (energy, transportation, communications, postal services, etc.); (iv) protection of the vulnerable segments of society such as women and ethnic minorities; and (v) protection of the environment through harnessing public opinion, flexible regulation, strengthening of self-regulation mechanisms and creating financial incentives for environment

friendly activities.

- b. Creation of alternative providers of infrastructure, social services, etc. For instance, instead of the State assuming the entire burden of providing health insurance or unemployment benefits, business, labour, and community groups can be co-opted in sharing the burden. Outsourcing can be devised to increase competition and innovation. Unnecessary regulations can be eliminated to release creative market forces. Privatization offers important possibilities for reducing the burden on the state. However, the way privatization is managed is as important as its content, and this means 'transparency' in the privatization process, winning the acquiescence of the staff, broad-basing ownership in the privatized entity, and instituting an appropriate regulatory structure for the privatized activity.
- c. In countries with weak institutions that are unable to check arbitrary actions of the State or its masters, self-restricting rules that precisely specify the ambit of a policy, and make it irreversible or costly to reverse, can be harnessed. Another way of checking arbitrary State action is for the State to work with the corporate sector and other organized forces for pursuing, say, an industrial policy, so that the latter is a product of consensus rather than administrative fiat.
3. The second part of the strategy of reform is the strengthening of the State's institutional capability:
 - a. Provide incentives to public officials to perform better; separate the powers of the legislature, the executive, and the judiciary, and create a system of mutual checks and balances; create an independent judiciary, so that laws are enforced and unconstitutional laws are struck down; reduce opportunities for corruption by reducing the discretionary authority of officials, regulations, and artificial barriers to entry in industry; pay competitive remuneration to public officials; have meritocracy in the recruitment and promotion of officials; institute stringent punishment for wrongdoing, and an independent agency for detect.
 - b. Deliver needed services by subjecting the state's services to increased competition from agencies both within and outside the state. For example,

public goods and services such as electricity and telecommunications services can be competitively provided rather than exclusively by monopoly agencies of the state. Focused, performance-based public agencies with autonomy and greater managerial accountability can be set up.

- c. Give people voice in the affairs and activities of the state, by the ballot box route as well as by co-opting them on various advisory councils; involve the beneficiaries of government programmes in the planning and implementation of these programmes.
- d. Devolve authority from the central government to regional and local governments, but institute mechanisms to monitor devolution, prevent the capture of these governments by vested interests, and to check profligacy by these governments.
- e. Ensure broad-based public discussion of key policies and priorities. Give much greater access of the public to information with the state and create various consultative forums.

2.9 Lessons from Some Commonwealth Countries

2.9.1 The developments in Commonwealth countries are of special relevance to India because of a shared administrative legacy. The key lessons that emerge from Commonwealth Secretariat studies (Commonwealth Secretariat, 1992, 1995d, 2002; Kaul and Collins, 1995; Khandwalla, 1999) seem to be the following:

- 1. Political commitment for change is critical. The vast changes in Britain, Australia, and New Zealand were driven by politicians, and in Canada, though the change was masterminded by the bureaucracy itself, it had the necessary support of the political leadership. It would be useful in a democracy, therefore, to forge a consensus on how governance must change.
- 2. Reform has to be paced appropriately to the administrative culture. Reform can be dramatic, as in New Zealand, or incremental, as in Canada. Where reform has been held up for a long time because of the defensiveness or rigidity

of the system and a political consensus for reform has finally emerged, administrative reform can be swift and radical. This process has been called punctuated equilibrium, meaning interludes of major change within long periods of stability (Romanelli and Tushman, 1994). Where a culture of change has been institutionalized, reforms and innovations can be spaced out, based on continuous trial and error learning, so that changes are gradual and time tested, but over a period of time, amount nearly to a revolution, as in the case of Canada. Obviously, it is preferable to evolve a government culture in which reform is brisk on a fairly continuous basis.

Box 2.2 : Delivering High Quality Public Service: The Singapore Way

In the 1990s, Singapore had nearly 60,000 civil servants. Its civil service, until the 1960s as corrupt and as bureaucratic as any in Asia, had become something of a model. Several long-term policies and actions, closely resembling NPM, seem to have contributed to this eminence (Commonwealth Secretariat, 1992; Quah, 1995):

Autonomy for Agencies

Singapore has over 60 statutory boards each enjoying a great deal of autonomy. Each could decide whom to hire, promote, and fire. Each formulated and implemented operating policies within its parliamentary mandate.

Containment of Corruption

An earlier anti-corruption ordinance was modified in 1980 under which the Corrupt Practices Investigation Bureau, formed in 1952, was given additional powers. This bureau used its powers to investigate even ministers; at least one reportedly committed suicide when threatened with an investigation.

Competitive Pay

By world standards, Singapore paid its public servants well indeed. There was a long-standing policy since 1972 of reducing the gap between public and private sector remuneration.

Recruitment of Highfliers

Relatively high pay scales enabled Singapore to attract and retain highfliers in its civil service. The Singapore Public Service Commission tried to reinforce this by some attractive incentives.

Computerization

Computerization in the government began in 1962. Singapore's civil service was fully computerized by 1990. In terms of public service, this effort meant shorter waiting times for customers and faster responses.

Service Improvement Unit (SIU)

This unit was set up in 1991 to monitor the standard of public services and catalyze their improvement by soliciting feedback from the users of these services. SIU encouraged ministries and statutory boards to assess the quality of their services through service audits and exit interviews, and to set quality targets for achievement.

Quality Circles

In the 1980s, the Government of Singapore adopted the idea of quality circles to launch nearly 8000 quality circles called WITs (work improvement teams).

3. **A central monitoring unit for monitoring progress, and for spurring it, is useful.** The INTAN played this role in Malaysia and the Cabinet Office in UK. It should preferably be a permanent and powerful unit, such as a special ministry of public administration reform, or an administrative reform commission with a constitutional mandate, or a powerful unit in the office of the head of the government. It should be the full-time (but not exclusive) responsibility of this unit to monitor reform, report progress to the nation, evolve remedial steps participatively, and monitor, possibly push, implementation of these steps.
4. **Ownership of change across the entire public service is important.** ‘The management of change requires that public servants at all levels feel a sense of involvement in the process, and that they share the vision and want the change. Involving staff in change from the beginning makes it more probable that those who have to live with the changes feel some commitment to the new order’ (Commonwealth Secretariat, 1995d, p. 17). In Canada, the top rungs of the bureaucracy set up a number of task forces of senior bureaucrats to evolve options for change. In Britain’s scrutiny exercises, the Efficiency Unit worked closely with the head and staff of the department that volunteered for a scrutiny, and participatively evolved the needed changes.
5. **External pressures for change have to be harnessed along with the bureaucracy’s internal drive for change in changing departmental processes.** For instance, the federal government of Australia required year-on-year efficiency savings from departments, and the so-called efficiency dividend was sought in Singapore. In Europe also, several countries have introduced required minimum efficiency savings in departmental budgeting (Schick, 1990). Citizens’ charters of UK departments similarly institutionalized the pressure within the government to respond to the customer. At the same time, various ways of monitoring customer satisfaction through panels, customer surveys, the use of enquiry commissions, consultants, etc. by the government are ways of catalyzing change from outside the government.
6. **The measurement of the performance of government departments and agencies must be institutionalized, with systems for feeding back assessed performance, and reward systems for reinforcing good performance.** This means the development of concrete criteria for measuring performance and the development of a monitoring system that gathers performance-related

information and reports this performance to decision-makers and supervisors of government departments and agencies. A system that recognizes and rewards good performance and one that recognizes and penalizes poor performance needs to be institutionalized. Performance management systems as under the UK’s Financial Management Initiative and the Next Steps Initiative are examples. Some 1800 different performance indicators were developed for various agencies (Schick, 1990). A problem, however, that needs to be kept in mind is that in penalizing poor performance of an agency or department, the public is not penalized. For example, if school funding is tied to the school’s performance or the school’s popularity, as in the UK, the students of poorly managed schools would be the prime sufferers. Rather than penalizing the stakeholders of the poorly performing government entity, it may make sense to replace an ineffective management by an effective management. Contract appointments of CEOs and other top-level executives facilitate this sort of flexibility. Emphasis on quantitative indicators of efficiency can lead, in government-funded health care systems to the neglect of needed but expensive treatments. A balance, therefore, between the purpose of a funded activity and its efficiency must be maintained in institutionalizing the monitoring and reward systems.

8. **Civil society needs to be co-opted to buttress the reform.** “An effective public service is not an isolated, autonomous body. It relies on an interconnected network of civil society and private sector organizations and interest groups, whose specific concerns are harnessed to support public service performance. Many managerial options proposed for inclusion within public service reform programmes rest on the capacity of external civic, professional and political institutions. Without such supporting institutional capacity, these managerial options are more illusory than real”, notes the Commonwealth Secretariat (Commonwealth Secretariat, 1995d, p.19). This implies strengthening, not weakening, of responsible professional bodies, industry and trade associations, trade unions, consumer and environmental protection groups, academic institutions, voluntary organizations, the media, etc. Although these are pressure groups that often perceived has “pain in the neck” by bureaucrats, they are also the source of various skills, ideas, competencies, and commitments required for sustaining public service reform.
9. **There must be recognition that reform is a continuing, long-term process.**

‘Public service reform programmes must contain specific targets if they are to have focus. The targets must be specified and achievable. Equally, however, reform programmes must note that reforms will be continuous. There is no final point...’ (Commonwealth Secretariat, 1995d, p. 19). This implies a focused commitment to the immediate programme, but longer-term flexibility and openness to innovations and changes in the reform agenda.

10. **Several practical mechanisms are useful in policy making and implementation** (Commonwealth Secretariat, 1995d, pp.20-65). These include mechanisms for policy development/evaluation, such as policy units segregated from implementing agencies, and development of criteria for assessing the quality of policy advice, as in New Zealand, or strengthening of the office of the head of the government and of offices of ministers with expert staff, recourse to external consultants, as in the US and Malaysia, greater use of expert commissions or task forces to evolve policy options, and creation of standing committees of the cabinet as in Australia and India. A high level mechanism for policy coordination, such as Malaysia’s National Development Council, can be useful.

2.10 Global Lessons

2.10.1 The concern for much more effective governance that can give best value for money to taxpayers, meets the needs of citizens, especially the disadvantaged, and is accountable to the stakeholders of the governance system has led to the development of a number of mechanisms and techniques. While there is no uniform formula or template for successful reform, the following are some of the lessons that could be drawn from the experience in other countries.

1. Political Commitment

In most of these countries, the reforms agenda was pushed and sustained by the country’s political leadership at the apex level.

The vision of the political leadership and a consensus across party lines for governance reforms to promote a more efficient and effective functioning of government agencies is a pre-requisite for triggering such reforms. Stable governments and a demand from the citizenry for change also tend to be features of effective governance reforms. It is therefore essential that political commitment and consensus for such reforms be developed for such initiatives to succeed.

2. Focusing on the Core Functions of Government: Right-sizing, Outsourcing

Modern developmental States tend to be very large, with an excess of clerks and menial staff but are often short of the right kind of managerial, vocational, and technical talent, such as teachers and health professionals to serve the indigent, engineers and other professionals to set up and operate infrastructure projects, and competent professional managers to run state-owned enterprises, agencies, boards, councils, development programmes, poverty alleviation programmes, and the like (Commonwealth Secretariat, 2002). So they need to shed excess manpower in certain categories or re-deploy it for more useful ends, and also employ more people of the right sort. Many Western governments have turned to ‘downsizing’. Britain, for example, reduced its civil service staff by about 20% during the 1980s and 1990s, primarily by privatization and transferring of staff to executive agencies. But they also have attempted ‘right-sizing’. The Clinton administration in the US let go of nearly 17% of the federal staff (about a million jobs), but added about 100000 to the police force to make America safer. Outsourcing of government activities to business/civil society bodies/citizens is a more reliable tool than privatization for improving the efficiency of governance and/or reducing the costs of services provided by the State. This is because it is more selective – only those activities of a government body are outsourced that can be done more economically and/or better than within the government body. Outsourcing also provides better control over outcomes because it is done through contracts that are enforceable as law. There are many ways of outsourcing. The most common is contracting with private vendors of services; others are franchising; subsidizing private bodies to carry out government activities; providing eligible citizens (mostly the needy) vouchers to buy, say medicine, from a list of approved outlets, etc. These include such services as meter readings of public utilities, the maintenance of public utilities, utility billing, waste collection and disposal, road repair and cleaning, building of roads and highways, fire prevention and control, crime prevention through patrolling, traffic signal maintenance, ambulance services, operation and maintenance of government hospitals, public housing, various welfare programmes, maintenance of public parks and cultural centers, government payroll and accounts, maintenance of computerized records, local tax assessment, billing and bill collection, slum development, recording of legal documents, accreditation of academic institutions so that they become eligible to receive state funds, binding conflict resolution (through lok adalats, for instance),

improvement of accounting standards (such as through recognizing the Institute of Chartered Accountants of India for this purpose) etc. The more developed the civil society and the private sector, the greater the possibility of outsourcing activities for improving quality, volume, and coverage, and reducing costs.

3. Competition in Delivery of Public Services - Dismantling Monopolies

Many public services are delivered by a single agency that is more or less a monopoly, at least for local users of the services. Thus, a single board or government department may provide such services to the indigent as social security/pension/provident fund payments, schooling for poor children, etc. Monopoly power tends to curb customer orientation and innovation, and can cause distress to those who avail of public services. Competition in the provision of public services can yield better service at lower cost, and overall may be quite useful to society. Competition can be created in several ways: license private sector/civil society bodies to provide public services (Canada licensed retailers to dispense postal services); break up a large public sector service dispensing unit into a number of smaller public bodies that provide a choice to people as to from whom to get the service; get public service bodies do a 'market test', that is invite bids for providing one or more of the services they are currently providing, and outsource if the bid exceeds the current cost, quality etc. parameters of the public service (such as a government employment agency inviting bids for finding employment for the unemployed in a particular city).

Corporatizing even a not-for-profit government service offers some advantages. Firstly, it sends a clear message to its management that the service is to operate on economic lines (even when making money is not the prime consideration). That is, it is expected to be cost-conscious, efficient, productive, innovative, and 'customer'-friendly. Secondly, since it is a corporation, it has a different legal structure than a government department – in India, it would have to be registered, for instance, under the Companies Act, and have an accountable board, with a CEO who is, in turn, accountable to the board. It would have flexibility in terms of raising financial resources from bodies other than the government and developing its own personnel and operating policies. If government controls are kept to the minimum regarding overall policies and objectives, it is a device that can minimize political and bureaucratic interference and enhance performance.

Privatization comes in many different forms, ranging from outright sale of a government asset and relinquishment of control over its use to the buyer, to the sale but retention of at least some control through, for instance, the golden share device, to the award of a management contract to a private party without relinquishing government ownership. It is partly a response to the ideology of the minimalist state, and partly it is a pragmatic response to the need to reshuffle the state's portfolio of activities and release funds for higher priority activities. Research on privatized enterprises has yielded a mixed picture. Privatization is not a panacea for improved governance performance.

4. Agencification

The basic idea was that agencies should be carved out of government departments to carry out specific executive functions within a mandate and a framework of policy and resources provided by the relevant ministry. The attempt was to separate policy making from implementation and to bring in professional management for implementation. Each agency was headed by a chief executive with considerable operating freedom, subject, however, to the mandate, and the policy and resources framework. The Commission has already made detailed recommendation on this issue in its Tenth Report on Refurbishing of Personnel Administration. In addition, this issue is dealt with in detail at paragraph 5.6 of this Report.

5. Decentralization, Delegation and Devolution

Decentralization is the process of dispersing decision-making governance closer to the people or citizen. Devolution is the outsourcing of functions, funds, and requisite authority by the central government to the local governments (states, local self-government bodies etc.). The Commission has already made detailed recommendation on these two issues in its Sixth Report on Local Governance. Delegation is the assignment of authority to subordinates or subsidiary units to enhance effectiveness and efficiency. The Commission has already made detailed recommendation on this issue in its Twelfth Report on Citizen Centric Administration.

6. Public-Private Partnerships

Public-Private Partnerships refer to joint ventures in developmental or social

capital or even commercial projects. between governments, the private sector and the academia that are coordinated through power sharing and joint decision making mechanisms like a board with representation of all the partners and other key stakeholders. The tool has the merits of pooling human and financial resources, professionalism, and participation of civil society in governance so that democracy is strengthened.

7. Process Simplification - Deregulation

A regulatory framework is created by government to ensure that policy is effectively implemented. Often, however, policies and regulations are hastily designed, or their relevance is overtaken by a change in circumstances. Unless harmful or useless regulations are periodically removed or modified, administration can get mired in red tape, and large costs can get borne by business and civil society. Many countries had launched efforts at reducing the number and complexity of regulations to make them more citizen and business friendly. The liberalization effort of India has resulted in the elimination or modification of many irksome permits, licenses, quotas, and procedures. Recent events in the financial sector have shown however that indiscriminate deregulation may be as costly in its own way as over regulation. As regards process simplification in general, the Commission has already made detailed recommendation on this issue in its Reports on e-Governance and Citizen Centric Administration.

8. Strengthening Accountability Mechanisms

Ensuring accountability and promoting an ethical approach in governance institutions is vital to improved governance. The Commission has already made detailed recommendations on this issue in its Fourth Report on Ethics in Governance.

9. e-Governance

e-Governance is better delivery of government services to citizens, improved interactions of government with business, citizen empowerment, and more efficient governance through information technology. The Commission has already made detailed recommendations on this issue in its Eleventh Report on e-Governance.

10. Performance Management System (PMS)

For each public service, the major components of PMS are the service's aims and mission, strategic objectives set by the organization offering it, breaking down of the objectives for the components of the organization, the identification of agreed upon targets of individual manager and his/her key result areas, periodic reporting of performance against targets and standards, review by superior authority, and remedial action. At every level, the specific needs of the 'customers' of the service, as well as critical success factors and the closing of any capability or other gaps have to be kept in mind. The Commission has already made detailed recommendations on this issue in its Tenth Report on Refurbishing of Personnel Administration.

11. Empowering the Citizen-customer

A number of mechanisms are available for enabling the voice of the people to be heard. Citizens' charters, publicizing the standards of services on offer to the people, effective grievance redress mechanisms, Right to Information etc are some of these that have evolved in different countries. The Commission has already made detailed recommendations on these issues in its Reports on Right to Information and Citizen Centric Administration.

12. Promotion and Diffusion of Good Governance Practices

Many innovations occur in the recesses of the government but remain unknown to the rest of the government. Thus, the impact of the innovation remains limited. Thanks to high IT connectivity; it is possible to bring innovations anywhere in the government, and indeed in any government, to the notice of all administrators for potential application. This is equally true of good practices. All it takes to diffuse innovations and good practices in governance is a national governance website for innovations and good practices, some encouragement and reward for logging these on to the website, with a software for sorting these out by function, and a cell in each ministry to bring significant relevant innovations and good practices to the notice of the ministry head.

13. Policy Evaluation and Regulatory Impact Assessment

Often, policies are hastily conceived and rammed through legislation without adequate consideration of consequences or long-term costs and benefits. Better appraisal of policies, through inter-disciplinary teams, wide public debate,

and the involvement of stakeholders and domain experts can surely reduce the dysfunctional consequences of public policies and increase the benefits.

Regulatory impact assessment usually consists of a checklist of questions relating to assessing whether a regulation is worth having or not. The OECD checklist includes the following: Is the problem for which the regulation has been designed correctly defined? Is government action in designing a regulation justified? Is the regulation the best option? Does the regulation have a sound legal base? What level of government should be involved in operating the regulation? Do the benefits of regulation justify its costs? Is the knowledge about how the regulation is going to impact/is impacting various parts of society available to the public? Is the regulation clear, consistent, comprehensible and accessible to the actual regulators? Have all the stakeholders had an opportunity to be heard? How will compliance to the regulation be achieved? To this must be added the important question whether there has been excessive deregulation, if so, in which sector.

14. Benchmarking for Continuous Improvement

Benchmarking is a process of identifying highly effective processes, structures, and systems in use within a system or outside it with a view to making such changes as are necessary to close the gap. It requires a careful comparison of quantitative and qualitative performance measures of different units or organizations (preferably comparable ones), the establishment of what could be considered high standards of performance and processes to assess one's unit against doing the relevant comparisons to identify significant gaps, and the development of a strategy of closing the identified gaps. Since comparisons can be painful, and may require painful decisions, it is essential to get the top management to support benchmarking. Benchmarking is likely to be seen as especially useful when it helps implement the organization's mission, goals, and strategy more effectively. Participative benchmarking is more likely to succeed than authoritarian benchmarking, and cross-functional benchmarking teams are more likely to come up with useful benchmarks than teams consisting of the same genre of specialists.

15. Governance Indices

Governance indices indicate what is happening to different social groups in terms of the quality of their life, especially to those that are disadvantaged or

vulnerable and could assist the State and civil society to take appropriate and expeditious remedial action. Hong Kong developed a social development index (SDI) in 1999 (Mok and Law, 2002; op. cit., Khandwalla). It consists of some 362 different indicators classified under 26 sectors of development activity. The index is computed for each of several groups of citizens (e.g. families, women, children, the elderly, people with disabilities, new arrivals, etc.). The development activity sectors include the rule of law, political participation, strength of civil society, health, education, housing, income security, transportation, population trends, employment, occupational safety, crime mitigation, public sector investment in social sectors, science and technology, social justice, social service, arts and culture, sports, entertainment, and recreation, environmental quality, economic growth and other economic indicators, subjective life satisfaction, and cost of living.

3.1 Historical Background

3.1.1 The British Government took over the administration of India from the East India Company by the Government of India Act, 1858. Thereafter, the British Parliament enacted several laws for governance of India. Some of the important legislative instruments in the pre-independence period were the Indian Councils Act, 1909; Government of India Act, 1919; and Government of India Act, 1935. With India attaining Independence, the Constitution of India laid the foundation of the structure of Government of India.

3.1.2 With the Government of India Act, 1858, the erstwhile territories of the East India Company vested in the British Crown who would appoint the Governor General of India as well as the Governors of the Presidencies. The powers of the Crown were to be exercised by the Secretary of State for India, assisted by the Council of India. The Indian Civil Service was created consequent to this enactment. There was no popular participation in the governance system. The Indian Councils Act of 1909, also known as the Morley-Minto Reforms, introduced the elections of Indians to the legislative councils. The Government of India Act, 1919, also known as the Montague Chelmsford Reforms, introduced a dual form of government ("diarchy") for some provinces - the reserved list and the transferred list.

3.1.3 The Government of India Act, 1935 brought several changes in the system of governance in the country. It provided for the establishment of an All-Indian Federation and a new system of government wherein the provinces were given more autonomy. The Central Legislature was to comprise two Houses - the Upper House or the Council of States and the Lower House or the Central Legislative Assembly. The 'Diarachy' which was earlier established in the Provinces was abolished but was introduced in the Centre. The executive authority of the Centre was vested in the Governor General (on behalf of the Crown) who had absolute power over defence, external affairs (Reserved Subjects). On other matters the Governor General was to act on the advice of a 'Council of Ministers'.

3.1.4 The Act stipulated that no Finance Bill could be placed in the Central Legislature without the consent of the Governor General. The Act further provided for three Lists - Federal,

Provincial and Concurrent - for division of legislative functions between the Centre and the Provinces.

3.2 The Constitutional Provisions

3.2.1 The Constitution has provided an elaborate framework for the governance system in India. Part V, Chapter I deals with the Union Executive, Chapter II deals with the Parliament and Chapter IV deals with the Union Judiciary. The Executive Power of the Union vests in the President and is exercised by him either directly or through officers subordinate to him in accordance with the Constitution (Article 53). Article 74 provides that there shall be a Council of Ministers with the Prime Minister as the Head to aid and advise the President who shall, in the exercise of these functions, act in accordance with such advice. Article 75 provides that the Prime Minister shall be appointed by the President and the other Ministers shall be appointed by the President on the advice of the Prime Minister. Article 77 provides for the Conduct of Government Business:

"77. (1) All executive actions of the Government of India shall be expressed to be taken in the name of the President.

(2) Orders and other instruments made and executed in the name of the President shall be authenticated in

such manner as may be specified in rules to be made by the President, and the validity of an order or instrument which is so authenticated shall not be called in question on the ground that it is not an order or instrument made or executed by the President.

(3) The President shall make rules for the more convenient transaction of the business of the Government of India, and for allocation among Ministers of the said business."

3.2.2 Article 73 lays down the executive powers of the Union.

"73. (1) Subject to the provisions of this Constitution, the executive power of the Union shall extend –

(a) to the matters with respect to which Parliament has power to make laws; and

- (b) to the exercise of such rights, authority and jurisdiction as are exercisable by the Government of India by virtue of any treaty or agreement:

Provided that the executive power referred to in sub-clause

- (a) shall not, save as expressly provided in this Constitution or in any law made by Parliament, extend in any State to matters with respect to which the Legislature of the State has also power to make laws.
- (2) Until otherwise provided by Parliament, a State and any officer or authority of a State may, notwithstanding anything in this article, continue to exercise in matters with respect to which Parliament has power to make laws for that State such executive power or functions as the State or officer or authority thereof could exercise immediately before the commencement of this Constitution.

3.2.3 Exercising powers vested by virtue of Article 77, the President has made the “The Government of India (Allocation of Business) Rules”. The Rules stipulate that the business of the Government of India shall be transacted in the Ministries, Departments, Secretariats and Offices specified in the First Schedule to these rules (all of which are hereinafter referred to as “departments”). The distribution of subjects among the departments shall be as specified in the Second Schedule to these Rules. The manner in which the officers are required to help the Minister in discharge of his/her executive functions is governed by the Government of India (Transaction of Business) Rules. The Rules provide that all business allotted to a Department shall be disposed of by, or under general or special directions of, the Minister-in-charge, subject to certain limitations where consultation is required with other departments or where cases have to be submitted to the Prime Minister, the Cabinet and its Committees or the President. These Rules also provide for the constitution of the following Standing Committees of the Cabinet and each Standing Committee shall consist of such Ministers as the Prime Minister may, from time to time, specify. As of now, these Committees are:

1. Appointments Committee of the Cabinet
2. Cabinet Committee on Accommodation
3. Cabinet Committee on Economic Affairs
4. Cabinet Committee on Management of Natural Calamities
5. Cabinet Committee on Parliamentary Affairs
6. Cabinet Committee on Political Affairs

7. Cabinet Committee on Prices
8. Cabinet Committee on Security
9. Cabinet Committee on World Trade Organisation Matters

3.2.4 The Rules also provide for appointment of ad hoc Committees of Ministers for investigating and reporting to the Cabinet, and, if so authorized, for taking decisions on such matters. The Rules also stipulate that it shall be the responsibility of the Departmental Secretary, who shall be the administrative head thereof, to ensure observance of these Rules in the Department.

3.3 The Structure of a Department

3.3.1 The work of Government of India is distributed into different Ministries/ Departments.

A Department has also been defined in the General Financial Rules as follows:

“5. Department -

- (1) A department is responsible for formulation of policies of the government in relation to business allocated to it and also for the execution and review of those policies.
- (2) For the efficient disposal of business allotted to it, a department is divided into wings, divisions, branches and sections.
- (3) A department is normally headed by a secretary to the Government of India who acts as the administrative head of the department and principal adviser of the Minister on all matters of policy and administration within the department.
- (4) The work in a department is normally divided into wings with a Special Secretary/Additional Secretary/Joint Secretary in charge of each wing. Such a functionary is normally vested with the maximum measure of independent functioning and responsibility in respect of the business falling within his wing subject to the overall responsibility of the Secretary for the administration of the department as a whole.
- (5) A wing normally comprises a number of divisions each functioning under the charge of an officer of the level of Director/Joint Director/

Deputy Secretary. A division may have several branches each under the charge of an Under Secretary or equivalent officer.

- (6) A section is generally the lowest organisational unit in a department with a well-defined area of work. It normally consists of assistants and clerks supervised by a Section Officer. Initial handling of cases (including noting and drafting) is generally done by assistants and clerks who are also known as the dealing hands.
- (7) While the above represents the commonly adopted pattern of organisation of a department, there are certain variations, the most notable among them being the desk officer system. In this system the work of a department at the lowest level is organised into distinct functional desks each manned by two desk functionaries of appropriate ranks e.g. Under Secretary or Section Officer. Each desk functionary handles the cases himself and is provided adequate stenographic and clerical assistance.”⁴

3.3.2 The Secretary is the administrative head of a Department and in a Department, the structure may comprise Special Secretaries, Additional Secretaries, Joint Secretaries, Directors, Deputy Secretaries, Under Secretaries and Section Officers. The functions of each of these are spelt out in the Central Secretariat Manual of Office Procedure as follows:

“(9) Functions of various levels of functionaries :

- (a) Secretary – A Secretary to the Government of India is the administrative head of the Ministry or Department. He is the principal adviser of the Minister on all matters of policy and administration within his Ministry/ Department, and his responsibility is complete and undivided.
- (b) Special Secretary/Additional Secretary/Joint Secretary – When the volume of work in a Ministry exceeds the manageable charge of a Secretary, one or more wings may be established with Special Secretary/Additional Secretary/Joint Secretary, in charge of each wing. Such a functionary is entrusted with the maximum measure of independent functioning and responsibility in respect of all business falling within his wing subject, to the general responsibility of the Secretary for the administration of the wing as a whole.

⁴Central Secretariat Manual of Office Procedures. Retrieved from <http://darpg.nic.in/> on 20-2-09

- (c) Director/Deputy Secretary – Director/Deputy Secretary is an officer who acts on behalf of the Secretary. He holds charge of a Secretariat Division and is responsible for the disposal of Government business dealt with in the Division under his charge. He should, ordinarily be able to dispose of the majority of cases coming up to him on his own. He should use his discretion in taking orders of the Joint Secretary/Secretary on more important cases, either orally or by submission of papers.
- (d) Under Secretary – An Under Secretary is in charge of the Branch in a Ministry consisting of two or more Sections and in respect thereto exercises control both in regard to the despatch of business and maintenance of discipline. Work comes to him from the sections under his charge. As Branch Officer he disposes of as many cases as possible at his own level but he takes the orders of Deputy Secretary or higher officers on important cases.”

3.3.3 Each Department may have one or more attached or subordinate offices. The role of these offices are:⁵

“6.2 Attached and Subordinate offices -

- (1) Where the execution of the policies of the government requires decentralisation of executive action and/or direction, a department may have under it executive agencies called ‘Attached’ and ‘Subordinate’ offices.
- (2) Attached offices are generally responsible for providing executive direction required in the implementation of the policies laid down by the department to which they are attached. They also serve as repository of technical information and advise the department on technical aspects of question dealt with by them.
- (3) Subordinate offices generally function as field establishments or agencies responsible for the detailed execution of the policies of government. They function under the direction of an attached office, or where the volume of executive direction involved is not considerable, directly under a department. In the latter case, they assist the departments concerned in handling technical matters in their respective fields of specialisation.”

⁵Central Secretariat Manual of Office Procedures. Retrieved from <http://darpg.nic.in/> on 20-2-09

3.3.4 Besides, the attached and subordinate offices there are a large number of organizations which carry out different functions assigned to them. These may be categorized as follows:⁶

- “1. Constitutional Bodies : Such bodies which are constituted under the provisions of the Constitution of India.
2. Statutory Bodies: Such bodies which are established under the statute or an Act of Parliament.
3. Autonomous Bodies: Such bodies which are established by the Government to discharge the activities which are related to governmental functions. Although such bodies are given autonomy to discharge their functions in accordance with the Memorandum of Association etc., but the Government's control exists since these are funded by the Government of India.
4. Public Sector Undertakings: Public Sector Undertaking is that part of the industry which is controlled fully or partly by the Government. These undertakings have been set up in the form of companies or corporations in which the shares are held by the President or his nominees and which are managed by Board of Directors which includes officials and non-officials.”

3.4 Reforms since Independence

3.4.1 Efforts to reform the structure of Government of India can be traced back to the early Fifties. In 1952, a Special Reorganisation Unit was constituted to economise on staff. Later on this unit was entrusted the task of using ‘work study’ techniques to scientifically evolve norms for work. In 1954, a Central Organisation and Management (O&M) Division was set up in the Cabinet Secretariat. This was followed by creation of O&M units in several Ministries. The main purpose of establishing these divisions was to streamline procedures and improve efficiency. The Planning Commission also set up a committee to evolve organizational norms for execution of plan projects. In order to provide a more focussed approach for reforms, the Government created the Department of Administrative Reforms within the Ministry of Home Affairs, in 1964.

3.4.2 During 1966, the First Administrative Reforms Commission undertook a comprehensive task of examining the machinery of Government of India and its procedures of work. Its major recommendations were:⁷

Chapters I and II

1. (1) (a) The number of Ministers in the Union Cabinet should be 16, including the Prime Minister.
- (b) Each Department/subject should be represented in the Cabinet by one or the other Cabinet Minister. The sixteen Cabinet portfolios may be as indicated in para 15.
- (c) The strength of the Council of Ministers should normally be 40. It may be increased in special circumstances but should in no case exceed 45.
- (2) The three-tier system in the ministerial set-up, comprising Cabinet Ministers, Ministers of State and Deputy Ministers, may continue. The office of Parliamentary Secretary, which has now fallen into disuse, need not be revived.
- (3) The functions and responsibilities of Ministers of State and Deputy Ministers and the powers which they may exercise within a Department or a Ministry should be clearly specified in the appropriate rules and orders.
- (4) The Prime Minister should consult the Cabinet Minister concerned before assigning a particular Minister of State or Deputy Minister to his Ministry.
- (5) No more than two Ministers should be involved in the decision making process in any Ministry.
2. (1) The Prime Minister should be given institutional support, in the form of Deputy Prime Minister, for ensuring efficient and effective functioning of the governmental machinery. The Deputy Prime Minister should have the charge, in addition to his own portfolio, of such subjects and ad hoc assignments as the Prime Minister considers appropriate. The office of the Deputy Prime Minister should be recognized in the Transaction of Business Rules.
- (2) The Prime Minister should continue to be associated with key appointments. He should periodically, say, once a month, meet, individually or in groups the Secretaries of important departments.
- (3) The Prime Minister should not ordinarily be in charge of a Ministry. His time should mostly be available for guidance, coordination and

supervision.

3. (1) The existing Standing Cabinet Committees should be reconstituted as proposed in para 29-30. The Committees should between them cover all important activities of Government. The membership of each Committee should not normally exceed six and should include all Ministers in charge of subjects covered by the Committee.
- (2) Every Standing Committee of Cabinet should be supported by a Committee of Secretaries which will consider in advance all matters to be taken up in the Cabinet Committee.
- (3) Ad hoc Committee of Ministers may be set up for investigating (but not deciding) particular issues and reporting to the Cabinet or the appropriate Cabinet Committees, as the case may be.
4. (1) The role of the Cabinet Secretary should not be limited to that of a coordinator. He should also act as the principal staff adviser of the Prime Minister, the Cabinet and the Cabinet Committees on important policy matters.
- (2) The Cabinet Secretary should ordinarily have a tenure of three to four years.

Chapter III – Relations between Ministers, Civil Servants and Parliament

5. The Prime Ministers should meet all Ministers individually or in group every month to discuss progress in implementation of policies and programmes and measures for improving the administrative efficiency. This should help promote a more active interest on the part of individual Ministers in improving the implementation process and the management of their Ministries.
6. (1) In selecting his colleagues, the Prime Ministers should give special attention to considerations of political stature, personal integrity, intellectual ability and capacity for taking decisions and sustained application to work.
- (2) In assigning a portfolio, due regard should be paid to the aptitude and capabilities of an incumbent.
- (3) A Minister should take a holiday of at least two weeks in a year

which he should devote to reading, reflection and relaxation.

7. The initial and annual statements of their financial assets and liabilities to be furnished by the Ministers under the Code of Conduct should be made available to the Lokpal. If any Minister fails to furnish such a statement the fact should be mentioned by the Lokpal in his annual report to Parliament. Suitable provision to this effect may be made in the Lokpal Bill which is now before Parliament.
8. (1) All major decisions, with reasons therefore, should be briefly reduced to writing, particularly where the policy of Government is not clear or where some important departure from the policy is involved or where the Minister differs from the Secretary on an important issue.
- (2) Ministers should try to develop a climate of fearlessness and fair play among the senior offices and encourage them to give frank and impartial advice. They should give the Secretaries the necessary guidance in carrying out their policies and orders.
- (3) The Prime Minister should, with the assistance of the Cabinet Secretary and the central personnel agency, take special interest to arrest the growth of unhealthy personal affiliations to individual Ministers among civil servants.
- (4) Ministers should not intervene in the day-to-day administration except in cases of grave injustice, serious default or maladministration on the part of civil servants. Where a citizen's request or complaint calls for revision of a rule, procedure or policy, it should be met by effecting such revision, and not by relaxing the rules to accommodate an individual case.
- (5) Secretaries and other civil servants need to show greater sensitivity to and a better appreciation of the Minister's difficulties, and to discriminate between minor adjustments on the one hand, and acts of political and other forms of accommodation compromising basic principles or likely to have substantial or lasting repercussions on efficiency and morale of the services, on the other.
- (6) The official relationship of the Secretary to the Minister should be one of loyalty and that the Minister to the Secretary one of confidence.
9. (1) A Minister should be held accountable – (a) when he fails to formulate policy in respect of a major problem or when the policy formulated is found erroneous or suffers from major weaknesses; (b) when he neglects to pay personal attention on important issues other

- than that of policy where such attention is expected of him or wrongly handles such issues; (c) when there is a general or major mismanagement or maladministration in his Department/Ministry; and (d) when he commits some act of impropriety.
- (2) A Minister should not be held accountable for an act of a civil servant which is (a) in express violation of a directive or order issued by him; or (b) by implication prohibited by policies already approved by him; or (c) is mala fide.
 - (3) For reinforcing the principle of collective responsibility, it is essential that (a) the Cabinet should; (b) a Minister does not announce a new policy or a major departure from current policy or a major departure from current policy with the approval of the Cabinet; and (c) a Minister should not ordinarily speak or make an announcement on matters not within his portfolio. However, if the circumstances so require of him, he must be himself properly briefed by the Minister concerned.
 - (4) Standing Committees of Parliament may be set up for reviewing the work of Departments grouped in five sectors, namely, Social Services, Economic Administration, Defence and Foreign Affairs, Food and Rural Development and Transport. These Committees should function on the lines of the Committee on Public Undertakings and without taking over the functions of the Public Accounts Committee. To begin with, only two of the Committees need be set up. As the Estimates Committee is now doing for each Department the type of review which is proposed for the sectoral committee, it will be necessary to remove from the purview of the Estimates Committee the Departments which fall within the jurisdiction of the sectoral committee. Where a Parliamentary Committee for a Department exists, it should not be necessary to have an Informal Consultative Committee.

Chapter IV – Ministries and Departments

10. The role of Central Ministries and Departments in subjects falling within the State List should be confined to matters listed in para 85. An analysis should be made in the light of these criteria of the items of work now handled by the Central agencies; and such items as do not fulfil the criteria should be transferred to the States.
11. (1) Non-secretariat organizations engaged primarily in planning, implementation, coordination and review of a single development

- programme or several allied programmes, covering a substantial area of the activities of the Ministry and having a direct bearing on policy-making should be integrated with the Secretariat of the concerned Ministry. Such amalgamation, subject to criteria laid down in para 96, is especially significant in the case of activities of scientific and technical character and activities which call for a high degree of functional specialization.
- (2) The heads of non-secretariat organizations which are integrated with the Secretariat should function on the principal adviser to the Government in the respective areas and should enjoy a status appropriate to the nature of their duties and responsibilities. They may retain their present designations. It is not necessary to confer on them a formal ex-officio Secretariat status.
 - (3) In all other cases, the present distinction between policy-making and executive organizations may be continued. Such distinction is vital for protecting the operational autonomy of the regulatory executive agencies and such developmental executive organizations as are mostly engaged in promotional activities, provision of a service or production and supply of a commodity.
 - (4) Executive functions at present performed by an administrative Ministry or Department which do not have a close bearing on policy-making (in terms of the criteria enunciated in para 96) should be transferred to an appropriate, existing non-secretariat agency or to a new executive organization specially created for the purpose, provided that the volume of the work justifies its creation.
 - (5) Policy position in Departments and Ministries dealing with scientific and technical matters or with functions of highly specialized characters should include persons having relevant specialized experience or expertise.
 12. (1) In non-staff Ministries other than those with board-type of top management, there should be set up of three "staff" offices, namely, (i) an office of planning and policy; (ii) a chief personnel office; and (iii) a chief finance office. An administrative Department with a heavy charge or with functions which have no close affinity with the work of other department(s) may have a separate planning and policy office.
 - (2) The office of planning and policy should include the planning cell recommended in the ARC Report on Machinery for Planning. This office should continuously be engaged in forwarding long-term policies, carrying out policy studies and evolving a series of well-articulated policy statements. It should also deal with the parliamentary work of the Department/Ministry.

- (3) The chief personnel office in a Ministry should serve as a focal point for the formulation and coordination of overall personnel policies, initiating measures for promoting personnel development and matters concerning discipline, appeals, memorials and service rules of cadres administered by the Ministry. It may also look after office management, O&M and general administration.
 - (4) Each of the three "staff" offices should be manned by staff having specialized knowledge and experience. The head of each "staff" office should generally be of the rank of a Joint Secretary though, in some cases, he may even be a Deputy Secretary or an Additional Secretary depending on the quantum of work.
 - (5) In addition to the three "staff" offices, each Ministry should have a public relations office or unit.
 - (6) The heads of the "substantive work" wings may deal directly with the chiefs of the three "staff" offices, as also with the Secretary and Minister on matters of technical or operational policy. Proposals having a bearing on long-term policy should, however, be processed through planning and policy office.
13. (1) Distribution of work between the wings of a Ministry/Administrative Department and within the divisions of a Secretariat wings should be based on considerations of rationality, manageability of change and unity of command.
- (2) Each secretariat wings should have its separate identity and its budget should appear as a distinct unit in the budget of the Ministry. Its head should enjoy adequate administrative and financial powers.
 - (3) The head of the wing should have the primary responsibility for good administration within the wing, effective supervision and control of staff and maintenance of high standards of discipline and conduct.
 - (4) The head of the wings should have considerable say in formulation of the wing budget, creation of posts subject to budget provision, spending of budgeted funds and appointment of personnel to the wing and their transfer therefrom. He should also have the necessary powers for effective day-to-day personnel management in the wing, e.g., power to sponsor staff for training, to grant honorarium, to impose minor penalties and to fill short-term vacancies.
14. (1) (a) There should be only two levels of consideration below the Minister,

- namely, (i) Under Secretary/Deputy Secretary, and (ii) Joint Secretary/Additional Secretary/Secretary. Work should be assigned to each of these two levels on the lines of "desk officer" system. Each level should be required and empowered to dispose of a substantial amount of work on its own and will be given the necessary staff assistance.
- (b) The staffing pattern within a wing may be flexible to facilitate the employment of officers of various grades.
 - (c) The duties and requirements of various jobs in the Secretariat at each of the two levels should be defined clearly and in detail on the basis of scientific analysis of work content.
- (2) For smooth and effective working of the proposed "desk officer" system, the following measures will be necessary:
- introduction of a functional file index;
 - maintenance of guard files or card indices which will contain all important precedents;
 - adequate provision for "leave" reserve; and
 - adequate stenographic and clerical aids.
- (3) (a) There should be set up in each Ministry or major administrative Department a Policy Advisory Committee to consider all important issues of long-term policy and to inject thinking inputs from different areas of specialization into problem solving. The Committee should be headed by the Secretary of the Ministry and should include the heads of the three "staff" offices (of planning and policy, finance and personnel) and heads of important substantive work wings (including those of the non-secretariat organizations integrated with the Ministry/Administrative Department). As and when necessary, the heads of the governing bodies of important research and training institutions and boards and corporations outside the Government may be co-opted as members of the Policy Advisory Committee for such items of work as are of interest to them.
- (b) Self-contained papers or memoranda, setting out problems, their various alternative solutions, merits and demerits of each alternative,

etc. should be prepared for consideration by the Committee, and the decision arrived at should be duly recorded in minutes.

Chapter V – Administrative Reforms – Formulation and Implementation

15. (1) The Department of Administrative Reforms should confine itself mainly to: (a) studies on administrative reforms of a foundational character, (b) building up O&M expertise in Ministries/Departments and training the personnel of their O&M; units in modern techniques of management, and (c) advice and guidance to these O&M units in effecting administrative improvements and reforms.
- (2) The existing O&M units in different Ministries/Departments should be reactivated.
- (3) A special cell on 'perspective reforms' should be set up in the central reforms agency.
- (4) Its methods of work, staffing pattern and organizational structure of the central reforms agency should be 'research-oriented'.
- (5) The Department of Administrative Reforms should be placed directly under the Deputy Prime Minister.
- (6) It is necessary to develop strong, autonomous professional institutions which will promote original thinking on administrative reforms and innovations. Studies on administrative reforms and improvements of the types mentioned in para 149 can be entrusted, with advantage, to autonomous professional institutions like the Indian Institute of Public Administration, Institute of Applied Manpower Research, Administrative Staff College of India (Hyderabad), and Indian Institutes of Management at Calcutta and Ahmedabad and selected Universities.
- (7) There should be a set up of a council on administrative reforms to advise the central reforms agency on the planning of its programme of work, to review progress, to help induct fresh thinking into its working, and to coordinate the activities of the different professional organizations engaged in research on problems of public management. The Council should consist of eight members, drawn from Members of Parliament, experienced administrators and eminent scholars interested in public administration. It may be presided over by the Deputy Prime Minister.

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- (1) The responsibility for overseeing the implementation of the recommendations of the Administrative Reforms Commission should rest with the Deputy Prime Minister.
 - (2) Before the Cabinet takes up a report of the Commission, it should be considered by the Cabinet Committee on Administration.
 - (3) A Special Cell should be set up in the Cabinet Secretariat under the overall charge of the Deputy Prime Minister and the general supervision of the Cabinet Secretary, to process the Commission's Reports. It should also assist the Deputy Prime Minister in overseeing the implementation of the accepted recommendations.
 - (a) After the Ministry/Ministries have communicated their views, the Special Cell in the Cabinet Secretariat should, under the direction of the Deputy Prime Minister, prepare the necessary papers for the Cabinet Committee on Administration.
 - (b) Within a Ministry/Department, the Commission's recommendations should be dealt with at a high level.
 - (4) Within three months of the receipt of a Report of the Commission, Government should place it before Parliament as a White Paper indicating their decisions on the basic recommendations contained in that Report.
 - (5) There should be a set up of an all-party Parliamentary Committee of both Houses whose function will be to see that the recommendations accepted by the Government are implemented expeditiously.

Chapter VI – A Central Personnel Agency

17. (1) A separate Department of Personnel should be set up, with a full Secretary in charge who should work under the general guidance of the Cabinet Secretary.
- (2) This Department should have the following functions and responsibilities:
 - (a) formulation of personnel policies on all matters common to the Central and All-India Services, and inspection and review of their implementation;
 - (b) talent hunting, development of personnel for "senior

- management” and processing of appointment to senior posts;
- (c) manpower planning, training and career development;
- (d) foreign assistance programme in personnel administration;
- (e) research in personnel administration;
- (f) discipline and welfare of staff and machinery for redress of their grievances;
- (g) liaison with the Union Public Service Commission, State Governments, Professional Institutions, etc.; and
- (h) staffing of the middle-level positions in the Central Secretariat (of Under Secretaries and Deputy Secretaries) with the assistance of and on the advice of the Establishment Board.
- (3) (a) The Department of Personnel should not itself administer any service cadre. The administrative control of different service cadres should vest with individual Ministries and Departments concerned.
- (b) The administration of the IAS, IPS and the centralized aspects of the Central Secretariat Services should be the responsibility of the Ministry of Home Affairs.
- (c) The management of the Indian Economic Service and of the Indian Statistical Services should be transferred to the Department of Economic Affairs.
- (4) The Cabinet Secretary should, by convention, be regarded as Secretary-General of the new Department of Personnel, without being formally so designated. He should be actively involved in the development of and selection for “senior management” but not in appointments below that level.
- (5) The new Department of Personnel should be placed directly under the Prime Minister.
- (6) An Advisory Council on Personnel Administration may be set up to act as a feeder line of new ideas and thinking on personnel administration. It should be composed of official and non-official experts in different aspects of personnel management, drawn from all over the country.

- (7) The Establishment Board should be located in the new Department of Personnel and the Secretary of this Department should be its Chairman. The Board should deal with appointments only up to and including Deputy Secretaries.

Chapter VII – Grouping of Subjects

- 18. (1) (A) Ministries and Departments in the Government of India as presently constituted should be reorganized into Ministries and Departments as indicated in para 192.
- (B) In particular –
- (i) As recommended earlier –
- (a) A new Department of Personnel should be created under the Prime Minister’s charge with functions as indicated in para 182 of Chapter VI of this Report.
- (b) The Department of Administrative Reforms should be under the charge of the Deputy Prime Minister (vide para 147, Chapter V).
- (ii) The Research and Development Organization of the Ministry of Defence should be located in the main Ministry and not in one of its Departments.
- (iii) The Department of Revenue and Insurance should be reorganized as the Department of Revenue and Expenditure.
- (iv) (a) “Insurance” should be transferred to the Department of Economic Affairs.
- (b) The present functions of the Department of Statistics in the Cabinet Secretariat should be transferred to the Department of Economic Affairs in the Ministry of Finance.
- (c) The Department of Economic Affairs should be responsible for coordination of all activities of Government in the economic field. The Commission for Prices, Cost and Tariff (the establishment of which has been recommended earlier in the Report on Economic Administration) should

- be administratively related to the Department of Economic Affairs.
- (v) The Department of Company Affairs should be shifted from the Ministry of Industrial Development and Company Affairs to the Ministry of Finance.
 - (vi) External Publicity should be transferred to the Department of Information and Broadcasting (now a Ministry).
 - (a) The combined Ministry of Commerce and Industry should have two Departments: (a) Department of Commerce and (b) Department of Industrial Development.
 - (b) The Council of Scientific and Industrial Research should be placed in the combined Ministry of Commerce and Industry.
 - (vii) The Advisory Committee to the Cabinet on Science and Technology should serve as the central point for advising the Cabinet on science policy, setting priorities and planning and review of scientific and technological research. It should have a permanent secretariat to service it.
 - (viii) The Ministry of Transport and Shipping and the Ministry of Tourism and Civil Aviation should be combined into a single Ministry of Transport and Tourism.
 - (ix) "Communications" should be transferred to the Ministry of Information and Broadcasting to form the Ministry of Communication, Information and Broadcasting.
 - (x) The charge of the Department of Parliamentary Affairs should be held by a Cabinet Minister who is the Leader of the House (Lok Sabha).
 - (xi) A Directorate of Construction should be set up in the Department of Works and Housing, charged with functions indicated in para 224.
 - (xii) The Ministry of Steel, Mines and Metals and the Ministry of Petroleum and Chemicals should be integrated into a single Ministry of Metals, Chemicals and Oil.
 - (xiii) The Department of Community Development and the Department of Cooperation should be merged together to form the Department of Community Development and Cooperation.

- (xiv) The Department of Food, the Department of Agriculture and the combined, new Department of Community Development and Cooperation should constitute together the Ministry of Food and Rural Development.
- (xv) (a) The Department of Rehabilitation should be merged into the Department of Social Welfare.
 - (b) The Ministry of Health, Family Planning and Urban Development, Department of Social Welfare and Ministry of Education should be amalgamated to form a new Ministry of Education, Health and Social Welfare.
- (xvi) A Bureau of Youth Services should be set up in the Ministry of Education, Health and Social Welfare.
- (xvii) The present functions of the Ministry of Home Affairs in judicial administration should be transferred to the Department of Legal Affairs in the Ministry of Law and this Ministry should be redesignated as Ministry of Law and Justice.
- (2) Responsibility for overall coordination within a Ministry which has more than one department/Secretary, should be specifically assigned to one of the Departments/Secretaries most appropriate for this purpose.

3.4.3 The Fifth Central Pay Commission laid emphasis on downsizing of the government. It stated:

Optimization of the Government machinery, rightsizing of Government, work-force size control - these are various facets of the same problems. It must have been noticed that reduction in the overall size of the bureaucracy is the underlying idea behind all the civil services reforms... that we have advocated in the preceding chapters. Here we would like to gather all the threads and describe the overall strategy in clear-cut terms. We would like to divide the overall strategy into four main sections as under:

Reduction in quantum of work

- a) Suggestions that will lead to reduction in the quantum of work left with the Central Government. We have to:

- i) Ascertain tasks that need not be done by Government
- ii) Pass on tasks to State Governments
- iii) Transfer certain tasks to corporate entities in public sector
- iv) Contract out tasks to the private sector
- v) Transfer some entities to the cooperative sector
- vi) Convert some institutions into autonomous bodies

Reduction due to organizational restructuring

- b) Suggestions that will lead to reduction in number of organizational employees required, because of organisational restructuring. These include:
 - i) Reduction in number of Ministries and Departments
 - ii) Introduction of officer-oriented system in Government
 - iii) Delayering and level-jumping
 - iv) Multiskilling

Reduction due to induction of technology

- c) Suggestions that will reduce the necessity for so many employees due to induction of technological change in Government. These include:
 - i) Computerization
 - ii) Office automation
 - iii) Creation of a paperless office
 - iv) Changes in office systems and file management

Rightsizing strategies

- d) Rightsizing strategies that will enable Government to shed some fat. These include:
 - i) Abolition of vacant posts

- ii) Freeze on recruitment
- iii) Across the board cut
- iv) Statutory control on creation of new posts
- v) Voluntary retirement
- vi) Compulsory retirement

3.4.4 The Expenditure Reforms Commission (ERC, 2000) examined the structure of various Ministries/Departments. The ERC was of the view that the entire gamut of the Union Government functioning on the civilian side had to be examined de novo and redetermined in the light of four key criteria- (i) Does this need to be done; (ii) Does this need to be done by government; (iii) Does this need to be done by the Union Government; (iv) If it is to be done by the Union Government, which ministry/ department/ organisation is best suited for doing it. It expressed concern at the rapidly increasing financial burden caused by the increasing staff strength and was of the view that a drastic downsizing of the government staff strength becomes necessary not only for securing modern and professional governance as visualised by the Fifth Central Pay Commission, but also to ensure that the burgeoning salary bill does not pre-empt scarce resources, that could otherwise be applied to priority areas like infrastructure development, human resource development and poverty alleviation. The ERC made the following recommendations:

- (1) A cut of 10% of the staff as on 1.1.2000 to be carried out by the year 2004-05.
- (2) A screening committee consisting of secretary of the concerned ministry, a representative of DOP&T and a representative of Department of Expenditure should prepare annual direct recruitment plan for all cadres, with the approval in respect of Group A posts, being accorded by a committee consisting of the Cabinet Secretary, concerned secretary, Secretary (DOP&T) and Secretary (Expenditure).
- (3) There should be a total ban on creation of new posts for two years.
- (4) Staff declared surplus should be transferred to the Surplus Cell to be redesignated as the Division of Retraining and Deployment, who will pay their salary, retirement benefits etc. In these centres, where the number of surplus staff is quite small, the present practice of the parent organizations making these payments may be continued.

- (5) Surplus staff should be made eligible for a liberal Voluntary Retirement Scheme recommended by the Fifth Central Pay Commission with the exception that commutation entitlements will be as at present and the ex-gratia amount will be paid in monthly installments covering a five-year period.
- (6) Those who do not opt for Voluntary Retirement Scheme and are not redeployed within one year will be discharged from service.
- (7) Redeployment of Group D will be handled by DOP&T and not DGET.
- (8) Group A officials opting for Voluntary Retirement Scheme will not be required to seek approval for commercial employment after retirement.

3.4.5 The Sixth Central Pay Commission (2008) also suggested a number of measures for improving the performance of government servants. It introduced the concept of running pay bands. The Sixth CPC itself cited the following as one of the benefits of having a running pay band system:

“the model will make the Government organization less hierarchical. While, initially grade pay will be payable as per the hierarchy, however, Government will have the flexibility to remove layers by removing specific grade pay. In the long run the model can be suitably adjusted to remove even the element of grade pay thereby ensuring total delayering of the Government structure facilitating quick decisions and increased output.”

3.5 Strengths and Weaknesses of the Existing Structure

3.5.1 The existing structure of the Government of India has evolved over a long period. It has certain inherent strengths which have helped it stand the test of time. However, there are weaknesses also which render the system slow, cumbersome and unresponsive.

Strengths

- a. **Time Tested System – adherence to rules and established norms:** The Government of India has evolved an elaborate structure, rules and procedures for carrying out its functions which have contributed to nation

building and the creation of an inclusive state. These have ensured stability both during crises as well as normal times. At the same time, where considered essential, innovative structures have been created in form of empowered commissions, statutory boards, autonomous societies and institutions especially in the fields related to research, science and technology.

- b. **Stability:** The structure of Government staffed by the permanent civil servants has provided continuity and stability during the transfer of power from one elected government to the other. This has contributed to the maturing of our democracy.
- c. **Commitment to the Constitution – political neutrality:** The well laid down rules and procedures of government have upheld the neutrality of the civil services and prevented politicisation of government programmes and services. This has helped in the evolution of institutions based on the principles enshrined in the Constitution.
- d. **Link between policy making and its implementation:** The framework of the Government of India has facilitated a staffing pattern which promotes a link between policy making and implementation. This has also helped the structure of both the Government of India and the States and promoted the concept of cooperative federalism.
- e. **A national outlook amongst the public functionaries:** Public servants working in Government of India as well as its attached and subordinate offices have developed a national outlook transcending parochial boundaries. This has contributed to strengthening national integration.

Weaknesses

- a. **Undue emphasis on routine functions:** The Ministries of Government of India are often unable to focus on their policy analysis and policy making functions due to the large volume of routine work that they are saddled with. This leads to national priorities not receiving due attention. Often, functions which are best carried out by the State or Local Governments or could easily be outsourced continue to be retained with the Union Government.
- b. **Proliferation of Ministries/Departments - weak integration and coordination:** The creation of a large number of Ministries and Departments sometimes due to the compulsion of coalition politics has led to illogical division

of work and lack of an integrated approach even on closely related subjects. It has been observed that the Ministries/Departments often carve out exclusive turfs and tend to work in isolated silos. This, at times, detracts from examination of issues from a wide national perspective and in an integrated manner.

- c. **An extended hierarchy with too many levels:** Government of India has an extended vertical structure which leads to examination of issues at many levels frequently causing delays in decision making on the one hand and lack of accountability on the other. Another noteworthy feature of the structure is that several levels are redundant as they do not contribute to the decision making process.
- d. **Risk avoidance:** A fall-out of a multi-layered structure has been the tendency towards reverse delegation and avoidance of risk in decision making. Another aspect of the existing structure is an increasing emphasis on consultations through movement of files as a substitute for taking decisions. This leads to multiplication of work, delays and inefficiency.
- e. **Absence of team work:** The present rigid hierarchal structure effectively rules out team work so necessary in the present context where an inter-disciplinary approach often is the need of the hour to respond effectively to emerging challenges.
- f. **Fragmentation of functions:** At the operational level also, there has been a general trend to divide and subdivide functions making delivery of services inefficient and time-consuming. Several decades ago, this was captured in a telling manner in a Shankar Cartoon, of an official being appointed as “Deputy Assistant Director General, Envelopes (Glue)”!
- g. Except in the case of a few committees and boards, there has been considerable weakening of the autonomy conceived at the time of their formation.

CORE PRINCIPLES OF REFORMING THE STRUCTURE OF GOVERNMENT

4

4.1 Core Principles of Reforming the Structure of Government

4.1.1 The extensive discussions and consultations that the Commission has had, the studies it has made (as detailed in its earlier Reports) and the experience of its own working lead to the conclusion that, over the years, the weaknesses listed in the previous Chapter have become stronger and the strengths have been diluted. As part of comprehensive administrative reforms, there is urgent need to reform the structure in order to reverse this trend. A major and basic restructuring is essential to combat the evils of fragmentation, narrow departmentalism, concentration of powers and micro-management at the higher levels which leads to inordinate delays and lack of accountability. The Commission feels that the following core principles should govern the restructuring of the Government of India:

- a. The Union Government should primarily focus on the following core areas:
 - i. Defence, International Relations, National Security, Justice and rule of law
 - ii. Human development through access to good quality education and healthcare to every citizen
 - iii. Infrastructure and sustainable natural resource development
 - iv. Social security and social justice
 - v. Macro-economic management and national economic planning
 - vi. National policies in respect of other sectors
- b. The principle of subsidiarity should be followed to decentralise functions to State and Local Governments.
- c. Subjects which are closely inter-related should be dealt with together: In any organization, functional division is inevitable but it should not be at the cost

of an integrated approach towards organizational goals. It is therefore necessary that while structuring Government into Ministries and Departments, a golden mean between the need for functional specialization and the adoption of an integrated approach is adopted. This would involve an in-depth analysis of all the government functions followed by their grouping into certain key categories to be linked to a Ministry.

- d. **Separation of policy making functions from execution:** In any large organization, the imperative of efficient management requires that higher echelons concentrate more on strategic decisions and policy making whereas the lower echelons focus on operational decisions and implementation of policies. In the context of Government, this would require the Ministries to give greater emphasis to the policy making functions while delegating the implementation functions to the operational units or independent organizations/agencies. This is all the more necessary because policy making today is a specialized function which requires a broader perspective, conceptual understanding of the domain and proper appreciation of the external environment. Implementation of the policies on the other hand require in-depth knowledge of the subject and managerial skills.
- e. **Coordinated implementation:** Coordination is essential in implementation as in policy making. The proliferation of vertical departments makes this an impossible task except in cases where empowered commissions, statutory bodies, autonomous societies have been created. There is considerable scope for more of such inter-disciplinary bodies in important sectors. This should be pursued urgently. In cases where these already exist, the tendency to reduce their autonomy should be reversed.
- f. **Flatter structures-reducing the number of levels and encouraging team work:** The structure of an organization including those in government should be tailor-made to suit the specific objectives it is supposed to achieve. The conventional approach in the Government of India has been to adopt uniform vertical hierarchies (as prescribed in the Manual for Office Procedure). There is a need to shift to flatter organizations with greater emphasis on team work.
- g. **Well defined accountability:** The present multi-layered organizational structure with fragmented decision making leads to a culture of alibis for non-performance. The tendency to have large number of on file consultations, often unnecessary, lead to diffused accountability. A clearer demarcation of organizational responsibilities would also have helped in developing a performance management system for

individual functionaries.

- h. **Appropriate delegation:** A typical characteristic of a government organization is the tendency to centralize power and avoid delegation of authority to subordinate functionaries or units. However, this leads to delays, inefficiency and demoralization of the subordinate staff. The principle of subsidiarity should be followed to locate authority closer to the citizens.
- i. **Criticality of operational units:** Government organizations have tended to become top-heavy coupled with fragmentation and lack of authority, manpower and resources at the operational levels that have a direct bearing on citizens' lives. Rationalization of Government staff pattern is necessary, commensurate with the requirements of the citizens.

4.2 Recommendation

- a. **The core principles mentioned in paragraph 4.1 should govern the restructuring of Government of India.**

5.1 Rationalising the Functions of Government

5.1.1 Kautilya in his treatise, Arthashastra, while describing the virtues of a king, had stated “In the happiness of his subjects lies his happiness, in their welfare his welfare, whatever pleases himself he shall not consider as good but whatever pleases his subjects, he shall consider as good”.

5.1.2 Government in the pre-Independence period was primarily concerned with enforcement of law, collection of taxes, defence and administration of justice. It also took up some welfare measures for society. After Independence, the Constitution provided the framework for a democratic welfare state with the Directive Principles providing the essence of good governance. In order to achieve the objectives set by the founding fathers of the Constitution, the structure of the government was recast. New departments and organizations were established to discharge various responsibilities. In general, there was a wide expansion in the role, function and structure of government. This expansion was necessitated because of the following reasons:

- i. to fulfil the mandate given by the Directive Principles and to meet the developmental aspirations of the people.
- ii. to attend to special problems of a region or a particular section of the society.
- iii. to expand the reach of government.
- iv. to provide a fillip to the economy.
- v. to meet the emerging challenges.

5.1.3 It has been argued that often government assumes roles and carries out functions which could be carried out more efficiently and effectively by agencies outside government. There is also a school of thought which feels that some of the functions of the Union Government should be entrusted to State Governments and similarly a large number of functions currently carried out by the State Governments should be assigned to the local governments.

5.1.4 With the ushering in of economic liberalization, the span of the regulatory role of the government gets reduced while that of facilitating role is enhanced – government need not row the ship but merely steer it. Added to this is the use of modern technology-especially computers and communications – which have rendered old structures obsolete.

5.1.5 The issue regarding the types of functions that the government should perform has been examined by several Commissions/Committees in the past. The First Administrative Reforms Commission while examining the role of the Union Government in respect of matters falling within the ambit of State Governments stated that:

“... we are of the view that the role of the Centre in areas which are covered by the State List of subject in the Constitution should be largely that of a pioneer, guide, disseminator of information, overall planning and evaluator. The Centre, of course, cannot give up its general responsibility of overseeing that the broad national objectives embodied in the Constitution are achieved by the States. But that does not mean that the Central Government should take upon itself tasks and responsibilities which properly belong to the States or duplicated their functions. Except in the most essential areas and that too for a limited duration, the Centre should not take upon itself functions and responsibilities which are legitimately those of the States.”

5.1.6 The First ARC recommended:

“The role of Central Ministries and Departments in subjects falling within the State List should be confined to matters listed in para 85. An analysis should be made in the light of these criteria of the items of work now handled by the Central agencies; and such items as do not fulfil the criteria should be transferred to the States.”

5.1.7 The Fifth Central Pay Commission identified the following areas as the legitimate province of the Union Government:

- National security
- International relations
- Law and order
- Management of economy at macro-level

- Setting up of infrastructure
- Social services
- Programmes for disadvantaged sections

5.1.8 The Fifth Central Pay Commission further examined the structure of Government of India and recommended a new charter for the Union Government:

- The Central Government would confine its activities only to the core functions mentioned in the Union List. Even here, an attempt could be made to prune the list.
- Some items could be shifted from the Concurrent List to the State List. Education is one such major subject.
- Matters which are itemized in the State List could be generally left to the States, with the Centre only dealing with certain minimal aspects of international relations, overall legislation and coordination.
- The list of Centrally Sponsored Schemes could be brought down sharply to almost ten National Programmes, with the rest being transferred to the States.

5.1.9 The Fifth Central pay Commission was of the view:

“At the same time, it is recognised that there are functions currently performed by Government which ought to be given up. Direct participation in manufacturing, mining and economic services and direct control of economic activity in the private sector are two such major areas. Many countries have divested themselves of public sector enterprises which could be better run in the private sector in the areas of coal, steel, fertilizers, air, rail and road transport, tourism, hoteliering, banking, insurance, and so on. Some countries have turned to the private sector even in the traditionally super-sensitive areas of atomic energy, space and defence production. Where some activities have been retained in Government, they have been hived off into separate autonomous agencies with independence of functioning.

All this has wide-ranging implications for the way the Central Government needs to be structured. The decisions that may require to be taken will be of

the following broad types:

- Some Ministries and Departments may have to be abolished altogether or amalgamated with other Ministries and Departments.
- The size of a Ministry or Department may have to be reduced drastically in order to fit it for the revised role that it has to perform.

...

5.1.10 The Commission is, by and large, in agreement with the suggestions made by the Fifth Central Pay Commission and the Expenditure Reforms Commission. The Commission would like to reiterate that the Union Government should primarily focus on the core functions mentioned below:

- Defence, International Relations, Public Order, justice and rule of law
- Human development through access to good quality education and healthcare to every citizen
- Infrastructure and sustained natural resource development
- Social security and social justice
- Macro-economic management and economic policy
- National policies in other sectors

Also, the principle of subsidiarity should be the guiding principle while deciding the level at which a particular function should be carried out.

5.1.11 Recommendations

- The Government of India should primarily focus on the core functions stated in paragraph 5.1.10.**
- Government at all levels should be guided by the principle of subsidiarity.**
- There is need to carry out a detailed analysis of the functions/activities in each Ministry/Department in the light of (a) and (b) above. This should be followed by restructuring which may include decentralization/delegation or hiving off activities.**

5.2 Rationalising the Size of Government

5.2.1 A closely linked aspect of the expansion of the functions of government is the increase in the size of the governmental workforce. It is often argued that government is overstaffed. The number of civilian posts of Government of India employees has increased from 17.37 lakh in 1957 to 29.82 lakh in 1971 and 37.87 lakh in 1984⁸. According to the census of Central Government employees, the total employment under the Central Government was 41.60 lakh in 1991 and increased further to 43.51 lakh in 1995.

5.2.2 The issue of overstaffing in government was examined by the Fifth Central Pay Commission. They observed:

From the statistics it is difficult to any definite conclusion whether the bureaucracy as a whole is ‘bloated’ or not. It would be correct to conclude that the 71.7% increase in the number of sanctioned posts between 1957 and 1971 was probably not justified. But the fact that this percentage growth rate came down sharply to 27% between 1971 and 1984 and then to a remarkably low figure of 10.3% between 1984 and 1994 shows that Government has acted to contain its fat. If the extra pounds have not been shed, at least the rate of growth has been markedly arrested. Even the very modest increase of 1% per annum is more due to the jump in the size of the uniformed forces. The armed forces grew at a compound annual growth rate of 1.4% between 1981 and 1991 and the Central Police Forces by more than 5% annually between 1986 and 1994. The Ministries of Communications and Railways sanctioned 70,000 and 41,000 additional posts during 1984-94 and contributed to the increase.

5.2.3 However, the Fifth Central Pay Commission felt that control of the size of the workforce was still essential because of various measures like rationalizing of functions, organizational restructuring and induction of modern technology. Accordingly, it recommended a freeze on recruitment after abolition of 3.5 lakh vacant posts, across the board 30% cut over 10 years and statutory controls over creation of new posts etc.

5.2.4 Subsequently, the Expenditure Reforms Commission recommended a further cut of 10% in the staff strength as on 1-1-2000, to be carried out by 2005, a system of approval of recruitment plans by a Screening Committee, a total ban on creation of new posts for a period of two years, creation of surplus cell for redeployment/training etc.

5.2.5 The Commission is of the view that an optimum size of government workforce is essential for its effective functioning. While an oversized government may prove to be a burden on the

⁸Fifth Central Pay Commission

exchequer apart from breeding inefficiency, an understaffed government may fail to deliver. Across the board, cuts and recruitment freezes have played a role in trimming the bloated workforce in government, especially when there is resistance to implement any rationalization of the staff strength. Such procrustean measures however have unintended consequences leading to shortages in departments that require officials for service delivery. The Commission has come across examples of skewed staffing patterns with inadequate field staff in many service delivery agencies, whereas positions at supervisory and headquarters levels were often overstaffed. It has also led to the undesirable system of short-term contract appointments of untrained persons. The Commission would like to emphasise that rationalizing the staff strength in government should be underpinned by the principle of criticality of the functions to be performed with respect to the objective of the organization rather than be driven by numbers.

5.3 Reorganising the Ministries and Departments

5.3.1 As in any other large organization, the structure of Government at the apex level reflects the complex tasks the process of governance involves. Given the varied nature of Government’s responsibility, it is inevitable that the structure of Government reflects a functional classification based on the nature of tasks performed by it. Governments in all countries are therefore organized into different Ministries and Departments that are entrusted with separate domains of responsibility such as defence, finance, health, education etc.

5.3.2 The Commission examined the structure of Government in other democratic countries such as United Kingdom and the United States of America. In the UK the number of Cabinet Ministers is less than 25 as listed in Table 5.1.

Table No. 5.1 : List of Ministerial Responsibilities in the United Kingdom ⁹		
Sl.No	Minister	Responsibilities
1	Prime Minister, First Lord of the Treasury and Minister for the Civil Service	The Prime Minister is the head of the UK Government and is ultimately responsible for the policy and decisions of Government. As head of the UK Government the Prime Minister also oversees the operation of the civil service and Government agencies, appoints members of the Government, and is the principal Government figure in the House of Commons.
2	Secretary of State for Business, Enterprise and Regulatory Reform	The Secretary of State holds overall responsibility for the business of the Department and its policies.

⁹Extracted from http://www.cabinetoffice.gov.uk/media/cabinetoffice/ministerial_responsibilities/assets/lmr_1108.pdf

Table No. 5.1 : List of Ministerial Responsibilities in the United Kingdom (Contd.)		
Sl.No	Minister	Responsibilities
3	Secretary of State for Children, Schools and Families	The purpose of the Department for Children, Schools and Families is to make England the best place in the world for children and young people to grow up. The Secretary of State holds overall responsibility for the business of the Department and its policies.
4	Secretary of State for Communities and Local Government	The Department of Communities and Local Government sets policy on local government, housing, urban regeneration, planning and fire and rescue. The Secretary of State leads on: • Overall responsibility for the Department and its policies including: public service agreement (PSA) targets; Departmental strategic objectives (DSOs); and expenditure issues • Empowering communities and citizens • Thames Gateway • Olympic Legacy
5	Secretary of State for Culture, Media and Sport	The Department for Culture, Media and Sport aims to improve the quality of life for all through cultural and sporting activities, support the pursuit of excellence and champion the tourism, creative and leisure industries. The Secretary of State leads on: • Overall responsibility for all Departmental Policy • Comprehensive Spending Review
6	Secretary of State for Defence	Has overall responsibility for the business of the Department but specifically leads on: • Defence Policy and Planning and Budget Issues • Operations in Iraq and Afghanistan • Nuclear issues including Ballistic Missile Defence • Bilateral Defence Relations with North America, Western Europe and the Middle East • NATO and EU issues • Media and Communications The Secretary of State has overall responsibility for the business of the Department but specifically leads on: • Defence Policy and Planning and Budget Issues

Table No. 5.1 : List of Ministerial Responsibilities in the United Kingdom (Contd.)		
Sl.No	Minister	Responsibilities
		• Operations in Iraq and Afghanistan • Nuclear issues including Ballistic Missile Defence • Bilateral Defence Relations with North America, Western Europe and the Middle East • NATO and EU issues • Media and Communications
7	Secretary of State for Energy and Climate Change	The Department brings together much of the Climate Change Group, previously housed within the Department for Environment, Food and Rural Affairs (Defra), with the Energy Group from the Department for Business, Enterprise and Regulatory Reform (BERR). The Secretary of State has responsibility for the overall strategy of the department and leads the UK in key international and EU negotiations and overseas engagements.
8	Secretary of State for Environment, Food and Rural Affairs	The Department for Environment, Food and Rural Affairs (DEFRA) central purpose is to help build a low carbon, resource efficient economy, and help people to adapt to changes. DEFRA defends them from environmental risks and makes the most of the opportunity we now have to secure a sustainable society and a healthy environment. DEFRA's main tasks are to secure a healthy environment for us all and defend against environmental risks; promote an economy that produces less carbon, and uses resources more efficiently; and ensure a thriving farming sector and a sustainable, healthy and secure food supply. The Secretary of State leads on: • Overall responsibility for all Departmental issues • Represents the UK at the EU Agriculture and Fisheries Council at the EU Environmental Council • Leads for the UK in other international negotiations on sustainable development
9	Secretary of State for Foreign and Commonwealth Affairs	The Foreign and Commonwealth Office works to promote the interests of the United Kingdom and to contribute to a strong world community. The Secretary of State leads on: • Overall responsibility for the work of the Foreign and Commonwealth Office • Policy Planning and Research Analysis

Table No. 5.1 : List of Ministerial Responsibilities in the United Kingdom (Contd.)		
S.No	Minister	Responsibility
		• Communications • Honours
10	Leader of the House of Commons, Lord Privy Seal and Minister for Women and Equality	The Government Equalities Office (GEO) is responsible for the Government's overall strategy and priorities on equality issues. Its work includes: leading the development of a more integrated approach on equality across Government to increase opportunities for all; taking forward the Minister for Women's priorities; taking forward work on the Equality Bill; sponsoring the Equality and Human Rights Commission and the Women's National Commission; and supporting the work of the National Equality Panel. The Office of the Leader of the House of Commons is responsible for the arrangement of government business in the House of Commons and for planning and supervising the Government's legislative programme. The Leader upholds the rights and privileges of the House and acts as a spokesperson for the Government as a whole. The Minister for Women and Equality has overall responsibility for the women and equality Agenda.
11	Secretary of State for Health	The aim of the Department of Health (DoH) is to improve the health and well-being of people in England. The Secretary of State leads on: Overall responsibility for the work of the Department including: • NHS and social care delivery and systems reform • Finance and Resources • Strategic Communications
12	Secretary of State for the Home Department	The Home Office leads a national effort to protect the public from terror, crime and anti-social behaviour. The Secretary of State leads on: • Overall responsibility for the business of the Department and its policies • Security • Counter-terrorism • Civil emergencies • Expenditure issues

Table No. 5.1 : List of Ministerial Responsibilities in the United Kingdom (Contd.)		
Sl.No	Minister	Responsibilities
13	Secretary of State for Innovation, Universities and Skills	Overall responsibility for developing, implementing and communicating policies to promote talent, research and innovation.
14	Secretary of State for International Development	The Department for International Development (DFID) is the UK Government Department responsible for promoting sustainable development and reducing poverty.
15	Secretary of State for Justice and Lord Chancellor	The Secretary leads on : • Overall strategy • Resourcing • Judicial appointments • Judicial diversity • Constitutional renewal • Lords reform • Party funding
16	Secretary of State for Northern Ireland	The role of the Northern Ireland Office (NIO) is to maintain and support the devolution settlement flowing from the Good Friday and St Andrews Agreements and to enable the devolution of justice and policing to occur as soon as the Northern Ireland Assembly requests it. The Secretary of State leads on: The role of the Northern Ireland Office (NIO) is to maintain and support the devolution settlement flowing from the Good Friday and St Andrews Agreements and to enable the devolution of justice and policing to occur as soon as the Northern Ireland Assembly requests it.
17	Leader of the House of Lords and Lord President of the Council	The responsibilities include: • Leading the Government front Bench in the House of Lords • Conduct of Government business in the Lords (jointly responsible with the Lords Chief Whip) • Repeating the Prime Minister's statements in the Lords and speaking in the House on particular important debates • Giving guidance to the House on matters of order and procedure • Taking part in formal ceremonies in the House, such as the State Opening of Parliament

Table No. 5.1 : List of Ministerial Responsibilities in the United Kingdom (Contd.)		
Sl.No	Minister	Responsibilities
		• Chair, Board of Trustees for Chequers and Dorneywood • As Lord President of the Council, responsible for the work of the Privy Council office. Presides over meetings of The Privy Council, signs draft Orders of Council, exercises on behalf of Her Majesty The Queen the jurisdiction of Visitor in respect of 17 Universities, is ex-officio Trustee for the National Portrait Gallery, and is Government spokesperson in the Lords on Privy Council, equalities and human rights issues. • As Lord President of the Council, one of six State Officer-holders who are ex-officio Commissioners of the Church of England.
18	Secretary of State for Scotland	The Scotland Office, headed up by the Secretary of State for Scotland, is part of the Ministry of Justice, based in Whitehall, London. The Office's key roles are to: represent Scotland's interests at Westminster; and act as guardian to the Devolution Settlement.
19	Secretary of State for Transport	The Department for Transport (DfT) has four Departmental strategic objectives which focus on the core areas of its business. These are to: • Sustain economic growth and improved productivity through reliable and efficient transport networks. • Improve the environmental performance of transport. • Strengthen the safety and security of transport. • Enhance access to jobs, services and social networks, including the most disadvantaged. The Secretary of State leads on: • Overview of all policies • Strategy • Corporate issues
20	Chancellor of the Exchequer	HM Treasury is the department responsible for formulating and putting into effect the UK Government's financial and economic policy. The Treasury's overall aim is to raise the rate of sustainable growth, and achieve rising prosperity, through creating economic and employment opportunities for all. The Chancellor of the Exchequer has overall responsibility for the work of the Treasury.

Table No. 5.1 : List of Ministerial Responsibilities in the United Kingdom (Contd.)		
Sl.No	Minister	Responsibilities
21	The Chief Secretary to the Treasury	Leads on: • Responsibility for public expenditure including Spending Reviews and strategic planning; in-year control; public sector pay and pensions; efficiency and value for money in public services; capital investment; public service delivery and performance • Treasury interest in devolution • Child poverty, welfare reform and oversight of the integration of the tax and benefit system • Assist the Chancellor where necessary on a wide range of economic, international and European issues
23	Secretary of State for Wales	The role of the Secretary of State for Wales and the Wales Office is to promote the devolution settlement for Wales, to promote the interests of Wales in policy formulation by the Government, to promote government policies in Wales, to steer through Parliament legislation giving specific powers to the National Assembly for Wales, to operate the constitutional settlement under the Government of Wales Act, 2006, to undertake Parliamentary business, and to deal with Royal matters.
23	Secretary of State for Work and Pensions	The Department for Work and Pensions (DWP) is responsible for delivering support and advice through a modern network of services to people of working age, employers, pensioners, families and children and disabled people. Its key aims are to help its customers become financially independent and to help reduce child poverty. The Secretary of State has overall responsibility for all work and pension matters as well as public expenditure matters.

5.3.3 In the US, the Cabinet's role is to advise the President on any subject he may require relating to the duties of each member's respective office. The Cabinet includes the Vice President and the heads of 15 executive departments — the Secretaries of Agriculture, Commerce, Defense, Education, Energy, Health and Human Services, Homeland Security, Housing and Urban Development, Interior, Labor, State, Transportation, Treasury, and Veterans Affairs, as well as the Attorney General.¹⁰

¹⁰<http://www.whitehouse.gov/administration/cabinet/>

Table No. 5.2 : List of Departments in the US and Their Responsibilities		
Sl.No	Minister	Responsibilities
1	Department of State	The Department of State plays the lead role in developing and implementing the President's foreign policy. Major responsibilities include United States representation abroad, foreign assistance, foreign military training programs, countering international crime, and a wide assortment of services to US citizens and foreign nationals seeking entrance to the US.
2	Department of the Treasury	The Department of the Treasury is responsible for promoting economic prosperity and ensuring the soundness and security of the US and international financial systems.
3	Department of Defense	The mission of the Department of Defense (DOD) is to provide the military forces needed to deter war and to protect the security of our country.
4	Department of Justice	The mission of the Department of Justice (DOJ) is to enforce the law and defend the interests of the United States according to the law; to ensure public safety against threats foreign and domestic; to provide federal leadership in preventing and controlling crime; to seek just punishment for those guilty of unlawful behavior; and to ensure fair and impartial administration of justice for all Americans.
5	Department of the Interior	The Department of the Interior (DOI) is the nation's principal conservation agency. Its mission is to protect America's natural resources, offer recreation opportunities, conduct scientific research, conserve and protect fish and wildlife, and honor our trust responsibilities to American Indians, Alaskan Natives, and our responsibilities to island communities.
6	Department of Agriculture	The US Department of Agriculture (USDA) develops and executes policy on farming, agriculture, and food. Its aims include meeting the needs of farmers and ranchers, promoting agricultural trade and production, assuring food safety, protecting natural resources, fostering rural communities, and ending hunger in America and abroad.
7	Department of Commerce	The Department of Commerce is the government agency tasked with improving living standards for all Americans by promoting economic development and technological innovation. The department supports US business and industry through a number of services, including gathering economic and demographic

Table No. 5.2 : List of Departments in the US and Their Responsibilities <i>Contd.</i>		
Sl.No	Minister	Responsibilities
		data, issuing patents and trademarks, improving understanding of the environment and oceanic life, and ensuring the effective use of scientific and technical resources. The agency also formulates telecommunications and technology policy, and promotes U.S. exports by assisting and enforcing international trade agreements.
8	Department of Labor	The Department of Labor oversees federal programs for ensuring a strong American workforce. These programs address job training, safe working conditions, minimum hourly wage and overtime pay, employment discrimination, and unemployment insurance.
9	Department of Health and Human Services	The mission of the Department of Energy (DOE) is to advance the national, economic, and energy security of the United States. The DOE promotes America's energy security by encouraging the development of reliable, clean, and affordable energy. It administers federal funding for scientific research to further the goal of discovery and innovation — ensuring American economic competitiveness and improving the quality of life for Americans.
10	Department of Housing and Urban Development	The Department of Housing and Urban Development (HUD) is the federal agency responsible for national policies and programs that address America's housing needs, that improve and develop the nation's communities, and that enforce fair housing laws. The Department plays a major role in supporting home-ownership for lower- and moderate-income families through its mortgage insurance and rent subsidy programs.
11	Department of Transportation	The mission of the Department of Transportation (DOT) is to ensure a fast, safe, efficient, accessible and convenient transportation system that meets our vital national interests and enhances the quality of life of the American people.
12	Department of Energy	The mission of the Department of Energy (DOE) is to advance the national, economic, and energy security of the United States. The DOE promotes America's energy security by encouraging the development of reliable, clean, and affordable energy. It administers federal funding for scientific research to further the goal of discovery and innovation – ensuring American economic competitiveness and improving the quality of life for Americans.
13	Department of Education	The mission of the Department of Education is to promote student achievement and preparation for competition in a global economy by fostering educational excellence and ensuring equal access to educational opportunity.

Table No. 5.2 : List of Departments in the US and Their Responsibilities (Contd.)		
Sl.No	Minister	Responsibilities
		The Department administers federal financial aid for education, collects data on America's schools to guide improvements in education quality, and works to complement the efforts of state and local governments, parents, and students.
14	Department of Veterans Affairs	The Department of Veterans Affairs is responsible for administering benefit programs for veterans, their families, and their survivors. These benefits include pension, education, disability compensation, home loans, life insurance, vocational rehabilitation, survivor support, medical care, and burial benefits. Veterans Affairs became a cabinet-level department in 1989.
15	Department of Homeland Security	The missions of the Department of Homeland Security (DHS) are to prevent and disrupt terrorist attacks; protect the American people, our critical infrastructure, and key resources; and respond to and recover from incidents that do occur. The third largest Cabinet department, DHS was established by the Homeland Security Act of 2002, largely in response to the terrorist attacks on September 11, 2001.

5.3.4 Article 74 of the Indian Constitution provides that there shall be a Council of Ministers with the Prime Minister at the head to aid and advise the President who shall, in the exercise of his functions, act in accordance with such advice. Article 75 further provides that the Prime Minister shall be appointed by the President and the other Ministers shall be appointed by the President on the advice of the Prime Minister. It also provides that the total number of Ministers, including the Prime Minister, in the Council of Ministers shall not exceed 15% of the total number of Members of the Lok Sabha.

5.3.5 In India, Rules of Business have been laid down providing for the subjects allotted to different Ministries and how the business allotted to the Ministries should be transacted. Thus, the Government of India (Transaction of Business Rules) states that subject to the provisions of these Rules in regard to consultation with other departments and submission of cases to the Prime Minister, the Cabinet and its Committees and the President, all business allotted to a department under the Government of India (Allocation of Business) Rules, 1961, shall be disposed of by, or under the general or special directions of the Minister-in-charge of that Department.

5.3.6 The distribution of subjects among the departments shall be as specified in the First Schedule to the Allocation of Business Rules and shall include all attached and subordinate offices or other organizations including Public Sector Undertakings concerned with its subjects. At present, the number of Ministries listed in the First Schedule is 50. The list of Ministries/Departments is at Table No.5.3.

Table No. 5.3 : List of Existing Ministries / Departments [Based on Government of India (Allocation of Business) Rules]		
Sl. No.	Existing Ministries	Existing Departments
1	Ministry of Agriculture	i. Department of Agriculture and Cooperation ii. Department of Agricultural Research and Education iii. Department of Animal Husbandry, Dairying and Fisheries
2	Ministry of Chemicals & Fertilizers	i. Department of Chemicals and Petro-Chemicals ii. Department of Fertilizers iii. Department of Pharmaceuticals
3	Ministry of Civil Aviation	
4	Ministry of Coal	
5	Ministry of Commerce and Industry	i. Department of Commerce ii. Department of Industrial Policy and Promotion
6	Ministry of Communications and Information Technology	i. Department of Telecommunications ii. Department of Posts iii. Department of Information Technology
7	Ministry of Consumer Affairs, Food and Public Distribution	i. Department of Consumer Affairs ii. Department of Food and Public Distribution
8	Ministry of Corporate Affairs	
9	Ministry of Culture	
10	Ministry of Defence	i. Department of Defence ii. Department of Defence Production iii. Department of Defence Research and Development iv. Department of Ex-Servicemen Welfare
11	Ministry of Development of North Eastern Region	

Table No. 5.3 : List of Existing Ministries / Departments [Based on Government of India (Allocation of Business) Rules]			(Contd.)
Sl. No.	Existing Ministries	Existing Departments	
12	Ministry of Earth Sciences		
13	Ministry of Environment and Forests		
14	Ministry of External Affairs		
15	Ministry of Finance	i. Department of Economic Affairs ii. Department of Expenditure iii. Department of Revenue iv. Department of Disinvestment v. Department of Financial Services	
16	Ministry of Food Processing Industries		
17	Ministry of Health and Family Welfare	i. Department of Health and Family Welfare ii. Departments of Ayurveda, Yoga & Naturopathy, Unani, Siddha and Homeopathy iii. Department of Health Research	
18	Ministry of Heavy Industries and Public Enterprises	i. Department of Heavy Industries ii. Department of Public Enterprises	
19	Ministry of Home Affairs	i. Department of Internal Security ii. Department of States iii. Department of Official Language iv. Department of Home v. Department of Jammu and Kashmir vi. Department of Border Management	
20	Ministry of Human Resource Development	i. Department of School Education and Literacy ii. Department of Higher Education	
21	Ministry of Information and Broadcasting		

Table No. 5.3 : List of Existing Ministries / Departments [Based on Government of India (Allocation of Business) Rules]			(Contd.)
Sl. No.	Existing Ministries	Existing Departments	
22	Ministry of Labour and Employment		
23	Ministry of Law and Justice	i. Department of Legal Affairs ii. Legislative Department iii. Department of Justice	
24	Ministry of Micro, Small and Medium Enterprises		
25	Ministry of Mines		
26	Ministry of Minority Affairs		
27	Ministry of New and Renewable Energy		
28	Ministry of Overseas Indian Affairs		
29	Ministry of Panchayati Raj		
30	Ministry of Parliamentary Affairs		
31	Ministry of Personnel, Public Grievances and Pensions	i. Department of Personnel and Training ii. Department of Administrative Reforms and Public Grievances iii. Department of Pensions and Pensioners Welfare	
32	Ministry of Petroleum and Natural Gas		
33	Ministry of Planning		
34	Ministry of Power		
35	Ministry of Railways		
36	Ministry of Rural Development	i. Department of Rural Development ii. Department of Land Resources iii. Department of Drinking Water Supply	

Table No. 5.3 : List of Existing Ministries / Departments [Based on Government of India (Allocation of Business) Rules]			(Contd.)
Sl. No.	Existing Ministries	Existing Departments	
37	Ministry of Science and Technology	i.	Department of Science and Technology
		ii.	Department of Scientific and Industrial Research
		iii.	Department of Bio-Technology
38	Ministry of Shipping, Road Transport and Highways	i.	Department of Shipping
		ii.	Department of Road Transport and Highways
39	Ministry of Social Justice and Empowerment		
40	Ministry of Statistics and Programme Implementation		
41	Ministry of Steel		
42	Ministry of Textiles		
43	Ministry of Tourism		
44	Ministry of Tribal Affairs		
45	Ministry of Urban Development		
46	Ministry of Housing and Urban Poverty Alleviation		
47	Ministry of Water Resources		
48	Ministry of Women and Child Development		
49	Ministry of Youth Affairs and Sports	i.	Department of Youth Affairs
		ii.	Department of Sports
50	Independent Departments	i.	Department of Atomic Energy
		ii.	Department of Space
		iii.	Cabinet Secretariat
		iv.	President's Secretariat
		v.	Prime Minister's Office
		vi.	Planning Commission

5.3.7 In 1947, the Council of Ministers comprised 16 members including the Prime Minister and Deputy Prime Minister. The size of the Council of Ministers has, over the years, increased significantly with the expansion in the role and apparatus of the State and also due to the political compulsions particularly in an era of coalition governments, to accommodate more Members of Parliament as Ministers. In order to restrict the size of the Council of Ministers to a reasonable limit, the Constitution (Ninety-first Amendment) Act, 2003, provided that the strength of the Council of Ministers shall not exceed 15% of the number of Members of Parliament in the Lok Sabha.

5.3.8 As can be seen, there has been significant proliferation of the Ministries and Departments in the Government of India since Independence. Creating new departments to deal with individual subjects has the advantage of focusing greater attention and resources on that field but it also carries with it the disadvantages of lack of coordination and inability to adopt an integrated approach to national priorities and problems. For example, 'Transport' is an extremely important subject which requires an integrated approach. Different aspects of this subject are dealt with in different Ministries. The Ministry of Civil Aviation deals, inter-alia, with aircraft and air navigation and other aids relating to air navigation and carriage of passengers and goods by air; while the Ministry of Railways is responsible for all aspects of rail transport; Ministry of Shipping, Road Transport and Highways deals with maritime shipping and navigation, highways and motor vehicles and the Ministry of Urban Development deals with planning and coordination of urban transport systems. Thus, 'Transport' as a subject has been fragmented into multiple disciplines and assigned to independent ministries making the necessary integrated national approach to this important sector difficult. Similarly, Energy is now being handled by at least four different departments i.e. the Ministry of Power, Coal, Non-conventional Energy Sources, Petroleum and Atomic Energy. In contrast, in the UK, there is a single Secretary of State (Cabinet Minister) for Transport and a single Secretary of State for Energy. The Commission feels that there is a need to strike a balance between the requirements of functional specialization on the one hand and the need for a holistic approach to key issues on the other. Democracies like the UK and the USA have attempted to achieve this by having between 15 and 25 ministries headed by Cabinet Ministers and assisted by other Ministers.

5.3.9 In India, the Departmentally Related Standing Committees of Parliament is a good example of integration of inter-connected subject matters as indicated in Table No.5.4

Table No. 5.4 : Departmentally Related Standing Committees of Parliament		
Sl. No.	Name of Departmentally Related Standing Committee	Demands for Grants Considered by the Committee
1.	Agriculture	i. Department of Agriculture and Cooperation ii. Department of Agricultural Research and Education iii. Department of Animal Husbandry, Dairying and Fisheries iv. Ministry of Food Processing Industries
2.	Chemicals & Fertilizers	i. Department of Chemicals and Petro-Chemicals ii. Department of Fertilizers
3.	Coal & Steel	i. Ministry of Coal ii. Ministry of Mines iii. Ministry of Steel
4.	Defence	i. Ministry of Defence
5.	Energy	i. Ministry of Power ii. Ministry of New and Renewable Energy
6.	External Affairs	i. Ministry of External Affairs ii. Ministry of Overseas Indian Affairs
7.	Finance	i. Department of Economic Affairs ii. Department of Expenditure iii. Department of Revenue iv. Department of Disinvestment v. Department of Financial Services vi. Ministry of Planning vii. Ministry of Statistics and Programme Implementation viii. Ministry of Corporate Affairs
8.	Food, Consumer Affairs & Public Distribution	i. Department of Consumer Affairs ii. Department of Food and Public Distribution
9.	Information Technology	i. Ministry of Information and Broadcasting ii. Department of Telecommunications iii. Department of Posts iv. Department of Information Technology
10.	Labour	i. Ministry of Labour and Employment ii. Ministry of Textiles
11.	Petroleum & Natural Gas	i. Ministry of Petroleum and Natural Gas
12.	Railways	i. Ministry of Railways
13.	Rural Development	i. Department of Rural Development ii. Department of Land Resources iii. Department of Drinking Water Supply iv. Ministry of Panchayati Raj

Table No. 5.4 : Departmentally Related Standing Committees of Parliament (Contd.)		
Sl. No.	Name of Departmentally Related Standing Committee	Demands for Grants Considered by the Committee
14.	Social Justice & Empowerment	i. Ministry of Social Justice and Empowerment ii. Ministry of Tribal Affairs iii. Ministry of Minority Affairs
15.	Urban Development	i. Ministry of Urban Development ii. Ministry of Housing and Urban Poverty Alleviation
16.	Water Resources	i. Ministry of Water Resources

5.3.10 Suggested Ministries/Departments

5.3.10.1 As mentioned earlier, currently the Ministries and Departments are organized on the basis of the Allocation of Business Rules. Schedule I of the Business Rules lists out 80+ Ministries and Departments. As stated in paragraph 5.3.8, the Commission is of the view that in order to evolve an integrated approach to national issues, it would be desirable to categorise the functions of Government into a reasonable number of groups, as has been done in other countries like the UK and the USA. The existing departments would therefore have to be distributed among the 20-25 groups of closely related subjects and functions.

5.3.10.2 The Commission is aware of the recent Constitutional amendments which limit the size of the Union Council of Ministers to 15% of the strength of the Lok Sabha. This figure has been arrived at based on the recommendations of the First ARC and after a thorough debate in the Parliament. The Commission recognises that the size of the Council of Ministers reflects the needs of representational democracy for a large and diverse country like India. It would also be unrealistic to expect for curtailment in the size of the Council of Ministers in an era of coalition politics. Instead, a more pragmatic approach would be to retain the existing size of the Council of Ministers but increase the level of coordination among the departments by providing for a senior Cabinet Minister to head each of the 20-25 closely related Departments. He/She may be designated as the “First or Coordinating Minister” (or any other suitable nomenclature) and would coordinate and provide the overall lead for the entire group of departments. Within the broad groups (20-25) mentioned earlier, there could be several departments. Individual departments or any combination of these could be headed as required by the Coordinating/First Minister, other Cabinet Minister(s)/Minister(s) of State. The Commission recognizes that for this arrangement to work, adequate delegation and division of work among the concerned Ministers would have to be worked out.

5.3.10.3 This would in effect mean that the concept of a Ministry would need to be

redefined. In the new dispensation, a Ministry would mean a group of departments whose functions and subjects are closely related and is assigned to a First Minister or Coordinating Minister for the purpose of providing overall leadership and coordination. The Departments would correspond to the existing list of departments mentioned in the First Schedule of the Allocation of Business Rules. This concept of Ministry and the Coordinating/First Minister may be explicitly laid down in the Allocation of Business Rules. As a consequence of this, a rationalization of posts at the Secretary level, where required, may also be considered.

5.3.10.4 This arrangement would in effect lead to enhanced coordination on national issues and at the same time, meet the requirements of providing adequate Ministerial representation in a large and diverse country, without causing a proliferation in the number of Ministries. Even after this restructuring there would still be some issues which would cut across different Ministries. In such cases, suitable inter-ministerial coordination mechanisms would be necessary.

5.3.10.5 Without going into the details of how the existing Ministries can be grouped based on how closely their subjects are inter-related, the Commission would like to demonstrate through the following examples how this can be achieved.

For example, the Ministry of Local Government could include the following Ministries/Departments:

- i. Rural Development
- ii. Drinking Water Supply
- iii. Housing and Urban Poverty Alleviation
- iv. Urban Development
- v. Panchayati Raj

Further, the following Ministries/Departments could be clubbed under the Ministry of Transport:

- i. Shipping
- ii. Road Transport and Highways
- iii. Civil Aviation
- iv. Railways

Similarly, the Ministry of Energy would include the following Ministries/Departments:

- i. New and Renewable Energy
- ii. Petroleum and Natural Gas
- iii. Power

As a consequence of this exercise, the Commission expects that the number of Ministries in Government of India could be reduced from about 55 at present to about 20-25.

5.3.11 Recommendations

- a. **The concept of a Ministry would have to be redefined. A Ministry would mean a group of departments whose functions and subjects are closely related and is assigned to a First or Coordinating Minister for the purpose of providing overall leadership and coordination. This concept of a Ministry and the Coordinating (or First) Minister may be explicitly laid down in the Allocation of Business Rules. Adequate delegation among the Ministers would have to be laid down in the Transaction of Business Rules. As a consequence of this, rationalization of Secretary level posts wherever required may also need to be carried out.**
- b. **Individual departments or any combination of these could be headed by the Coordinating (or First) Minister, other Cabinet Minister(s)/Minister(s) of State.**
- c. **The structure of the Government of India should be rationalised by grouping together closely related subjects as illustrated in paragraph 5.3.10.5 in order to reduce the number of Ministries to 20-25.**

5.4 Recasting the Allocation of Business Rules

5.4.1 The Allocation of Business Rules specifies the distribution of subjects among the Ministries and Departments of Government of India. It comprises two schedules; the first lists out the Ministries, Departments, Secretariats and Offices through which the business of Government of India shall be transacted, while the second lists out the subjects in respect of each department including the attached and subordinate offices or other organizations including public sector undertakings concerned with its subjects. The Rules further provide that the President, on the advice of the Prime Minister, allocates the business of the

Government of India among Ministers by assigning one or more Department to the charge of a Minister.

5.4.2 It is further provided that the President may, on the advice of the Prime Minister, associate in relation to the business allotted to a Minister another Minister or Deputy Minister to perform such functions as may be assigned to him, or entrust the responsibility for specified items of business affecting any one or more than one Department to a Minister who is in charge of any other Department or to a Minister without portfolio who is not in charge of any Department.

5.4.3 The Allocation of Business Rules, thus, forms the basis of the structure of Government of India by specifying the Departments among whom the functional division of work of Government of India has been done. The Commission has therefore examined these Rules in detail. The Commission has also examined similar work allocation rules in other countries.

5.4.4 The Allocation of Business Rules comprise an exhaustive listing of the subjects and activities of various Departments of Government of India. It also enlists the attached and subordinate offices and other organizations including Public Sector Undertakings. This detailed listing has the advantage of clearly demarcating the turf of individual departments so that there is no ambiguity with regard to their responsibilities. The allocation of Business has been kept up to date by a series of amendments and has stood the test of time.

5.4.5 However, the Commission feels that there is need to recast these Rules in order to make them more focussed on the goals and outcomes of each Department. Besides, there is a need to shift the emphasis from a listing of activities/subjects of each Department to a broader perspective. There are some other shortcomings that need to be resolved in order to make these rules more precise and meaningful. These are briefly analyzed below:-

5.4.5.1 While the items are listed in detail they relate only to the subject concerned and do not deal with the responsibility relating to that subject.

5.4.5.1.1 A perusal of the Allocation of Business Rules indicates that in many cases they tend to focus more on the subjects, activities and organizations under each Department and less on the overall responsibilities and functions of the Department(s) or the Ministry/Ministries in charge. For example, in the allocation of business to the Department of Economic Affairs (Ministry of Finance), there is no mention of the overall responsibility and functions of the Department. Instead there is a listing of individual subjects, functions

and organizations. Similarly, for the Department of Health and Family Welfare, these rules list out the organizations, programmes, activities and functions of the Department without any reference to its overall objectives and responsibilities.

5.4.5.1.2 In the United Kingdom, on the other hand, the list of ministerial responsibilities of the Department of Health begins with the following:

“The aim of the Department of Health (DoH) is to improve the health and well-being of people in England.”

5.4.5.1.3 The Commission also notes that the entries in relation to certain Ministries such as the Ministry of Water Resources and the Ministry of Minority Affairs are comparatively well written and closer to the type of entry that the Commission has in mind. Thus, the entry for the Ministry of Water Resources is as under:

- “1. Development, conservation and management of water as a national resource, overall national perspective of water planning and coordination in relation to diverse uses of water.
2. National Water Resources Council
3. General policy, technical assistance, research and development training and all matters relating to irrigation, including multi-purpose, major, medium, minor and emergency irrigation works; hydraulic structures for navigation and hydro-power; tube-wells and groundwater exploration and exploitation; protection and preservation of groundwater resources; conjunctive use of surface and ground water, irrigation for agricultural purposes, water management, command area development; management of reservoirs and reservoir sedimentation; flood (control) management, drainage, drought proofing, water logging and sea erosion problems; dam safety.
4. Regulation and development of inter-State rivers and river valleys, Implementation of Awards of Tribunals through Schemes, River Boards
5. Water laws, legislation
6. Water quality assessment
7. Cadre control and management of the Central Water Engineering Services (Group A).....”

5.4.5.1.4 The entry for the Ministry of Minority Affairs, spells out the mission of the Ministry in clear terms:

- “1. Overall policy, planning, coordination, evaluation and review of the regulatory and development programmes of the minority communities.
2. All matters relating to minority communities except matters relating to law and order.
3. Policy initiatives for protection of minorities and their security in consultation with other Central Government Ministries and State Government.
4. Matters relating to linguistic minorities and of the Office of the Commissioner for Linguistic Minorities.
5. Matters relating to National Commission for Minorities Act.
6. Work relating to the evacuee Wakf properties under the Administration of Evacuee Property Act, 1950 (31 of 1950 (since repealed).

5.4.5.1.5 The Commission is of the view that for all departments of Government of India, these rules should first provide a Statement of the mission of the department rather than a mere list of subjects, functions, Acts and organisations.

5.4.5.2 The allocation is not uniformly detailed nor does the listing of functions of various departments follow a uniform pattern.

5.4.5.2.1 It is observed that for certain departments, subjects, functions and organizations are listed out in great detail whereas in certain other departments the listing is far less comprehensive. Thus for the Ministry of Tourism, only the following three subjects are mentioned viz. (1) Development and Promotion of Tourism, (2) International Cooperation in the field of Tourism, (3) India Tourism Development Corporation and Autonomous Institutes. On the other hand in respect of the Ministry of Textiles, as many as 69 items are listed including various legislations, autonomous organizations, PSUs, advisory/developmental councils, associations etc. Moreover, the listing of subjects do not follow a uniform pattern. For example, under the Ministry of Social Justice and Empowerment, subjects are listed under 4 parts. Part I refers to subjects falling within List I of the Seventh Schedule to the Constitution of India viz. “Operation of Indo-US, Indo-UK, Indo-German, Indo-Swiss and Indo-Swedish Agreements for duty free receipt of donated relief

supplies/goods and matters connected with the distribution of supplies coming thereunder.” Part II refers to subjects that fall within List III of the Seventh Schedule to the Constitution viz. “Social Security and Social Insurance, save to the extent allotted to any other Department.” Part III states that for the Union Territories, the following subject which falls within List II or List III of the Seventh Schedule to the Constitution of India, in so far as they exist in regard to such Territories: “Relief of the disabled and unemployable and measures relating to Social Security and Social Insurance, save to the extent allotted to any other Department.” Thereafter, Part IV lists out 19 different subjects under the Ministry in the same manner as for most of the other Departments/Ministries.

5.4.5.2.2 This highlights the need to bring about greater uniformity and clarity in the description of the roles and functions of various Ministries/Departments.

5.4.5.3 Listing of laws

5.4.5.3.1 While listing of subjects covered by statutes, some are covered while many are left out. Generally, it is observed that the laws including subordinate legislation that is dealt with by some of the Ministries/Departments have been listed as one of the subjects. However, the listing is not uniformly exhaustive for all Departments/Ministries.

5.4.5.3.2 The Commission feels that with the large number of laws that have been enacted in India, listing out all such laws and putting them department-wise in the Allocation of Business Rules makes them unwieldy. A better option may be for the Ministries/Departments concerned to maintain a master list of all laws pertaining to the subjects dealt with in that Ministry/Department instead of mentioning them in the Allocation of Business Rules. The underlying principle should be stated in the Rules that all laws relating to the subjects and functions allocated to a Ministry/Department would fall under its purview.

5.4.5.4 Listing of Public Sector Units and autonomous organizations

5.4.5.4.1 It is observed that all the Public Sector Undertakings have been listed under the concerned Departments. For example, the entry under the Ministry of Heavy Industry and Public Enterprises lists 35 PSUs. However, for autonomous organizations the treatment varies with the Lists for some Ministries/Departments containing all the autonomous organizations that fall under their jurisdiction while for some other Ministries/Departments all the organizations are not mentioned. For example, the entry under the Ministry of Tourism simply states “autonomous institutes” without naming them.

5.4.5.4.2 The Commission feels that instead of listing out the individual PSUs and autonomous organizations under each Ministry, the Rules should merely have a generic entry to the effect that all PSUs and Autonomous Organizations whose functioning is directly related to the subject(s) of the concerned Ministry would be under its jurisdiction. However, in cases where the functional area of a PSU pertains to more than one Ministry/Department, it may be advisable to list out such PSUs under the relevant Ministry/Department.

5.4.6 Recommendations

- a. There is need to recast the Allocation of Business Rules to make them more focussed on the goals and outcomes of each Ministry/Department in order to shift the emphasis from a detailed listing of activities/subjects of each Ministry/Department to a broader perspective.
- b. The Allocation of Business Rules should first provide a Statement of the mission of the department followed by a list of subjects and functions.
- c. There is need to bring greater uniformity in the description of the roles and functions of various Ministries/Departments.
- d. Ministries/Departments should maintain a master list of all laws pertaining to the subjects dealt with in that Ministry/Department instead of mentioning them in the Allocation of Business Rules. The underlying principle should be stated in the Rules that all laws relating to the subjects and functions allocated to a Ministry/Department would fall under its purview.
- e. Instead of naming the individual PSUs and autonomous organizations under each Ministry, the Rules should merely have a generic entry to the effect that all PSUs and Autonomous Organizations whose functioning is directly related to subject(s) of the concerned Ministry would be under its jurisdiction. However, in cases where activities of a PSU or an autonomous organization relates to more than one Ministry/Department, then it may be advisable to list out such PSUs under a particular Ministry/Department.

5.5 Ministries and Departments to Primarily Focus on Policy Analysis*

5.5.1 Policy Analysis in Government

5.5.1.1 There are two broad tasks of the government. The first is formulating policy in pursuance of objectives that the political leadership specifies, and the second is implementation of that

policy. In a democracy, it is the political leadership, assisted by the civil servants, who set the vision, goals and strategic directions. But sound institutional arrangements play an important role in whether these visions, goals and strategic directions are translated into effective policy priorities.

5.5.1.2 Although precise institutional arrangements have varied, effective governments throughout the world are characterized by strong systems for strategic policy formulation. At the heart of these systems are mechanisms for preparing sound policy proposals after due consideration of future implications, estimating the costs of competing several policy options within a disciplined framework of aggregate expenditures, ensuring extensive horizontal coordination where policies are spread across a number of departments and where delivery mechanisms are similarly divided between different parts of the government, and introduction of policy evaluation systems.

5.5.1.3 In the UK, the Performance and Evaluation Unit has been set up in the government to tackle areas selected by the Prime Minister where policies spread across a number of departments and where delivery mechanisms are divided between different parts of the government. The function of the Unit is to assemble teams to put together all the facts and options, and to come up with proposals for improvement. The projects taken up by the Unit have included policy towards the rural communities, the ageing population, electronic commerce and delivery of government services in the regions, and developing the concept of accountability and incentives to encourage better working across departments and different parts of the government. The Social Exclusion Unit has been set up in the Cabinet Office to look at the most difficult areas of social policy such as housing estates, rough sleepers, and teenage parenthood and to devise policies which will be effective in bringing about improvements. The Unit's task is to assemble teams drawn from a wide variety of backgrounds whose responsibility is to come up with better policy prescriptions to deal with these problems.

5.5.1.4 In New Zealand, the government has brought out a booklet called "Policy Advice Initiative - Opportunities for Management" for use by policy-makers. New Zealand has even established ministries whose output is policy advice. For instance, it split the Ministry of Defence in 1989 into the New Zealand Defence Force, in charge of the country's defence forces, and a small Ministry of Defence, whose primary function was to provide policy advice on strategic and military capabilities.

5.5.1.5 Japan has set up a strong mechanism for careful policy evaluation. The idea is to evaluate policy carefully when it is first proposed, and also evaluate periodically the relevance and costs

and benefits of policies in force. Although policy review is the responsibility of each ministry, Japan has experimented with inter-disciplinary agencies specializing in policy evaluation to do this on a continuing basis and coach the ministries in sophisticated policy analysis. In Japan, the Ministry of Public Management, Home Affairs, Posts and Telecommunications tries to ensure uniformity, rigour and objectivity in policy analysis throughout the Japanese government, and seeks broader lessons in the light of experience in policy evaluation. Policy evaluation criteria are necessity, efficiency, effectiveness, equity and priority. The use of these criteria is expected to throw up alternatives to the proposed new policy and existing policies and practices. Some critical questions asked are: Are the policy results effective? Is there an alternative, better policy?

5.5.1.6 In Malaysia, the Economic Planning Unit of the Prime Minister’s Office undertakes policy analysis: it evaluates the impact of government policies on the quality of life and on the economy. Policy analysis and research units have been established in all the ministries in Tanzania.

5.5.1.7 The imperative of providing high quality policy advice requires that the attention of apex levels in government should not get diverted by the demands of managing administrative and operational responsibilities. This would call for a broad separation of policy formulation and implementation responsibilities. What this would imply is that the ministries responsible for policy analysis and formulation including the monitoring and evaluation of policy implementation should be separated from entities responsible for delivery of services, operational matters and enforcement of regulations. Separation of policy-making from implementation would also work as a mechanism to ensure that contestable policy options are generated and that the government does not get captured by provider interests which unduly influence its policy proposals. Such a broad separation of policy and operations would mean a reduction in the excessive degree of central control now being exercised by the Ministries over operational matters. This, in turn, would require the emphasis on system-wide conformity to be replaced with a combination of centrally prescribed standards and much greater autonomy to departments charged with the operational responsibility of implementing policy. In other words, while the ministries would make policy and prescribe standards for implementation, the actual implementation will be done by entities that will be given the necessary degree of autonomy and authority to discharge their operational responsibilities.

5.5.2 Policy-Making in India

5.5.2.1 The Union Government at present has about 55 ministries, each headed by a Minister, usually of Cabinet rank. There are Ministers of State in some ministries, some of whom hold

independent charge of a Department. Each ministry consists of one or more departments, and many have attached to them one or more special purpose entities (commissions, boards, councils, departmental undertakings, government-owned enterprises, agencies, etc.). A vast bureaucracy, numbering about 4 million, assists the Ministers of the Union Government. The bulk of the bureaucracy consists of clerical and support personnel. Members of the civil services occupy almost all of the key administrative positions.

5.5.2.2 Shriram Maheshwari has elucidated the principles governing the Indian bureaucracy (Maheshwari, 1990, pp. 47-48):

“The machinery of government at the Centre (and also in the States) is designed on the basis of two important administrative principles. An overriding belief in the desirability of structural separation of policy-making... and administration has led to the creation of an organization that is concerned exclusively with policy-making and another that is charged with implementing responsibilities. As a result, the

Box No. 5.1 : Policy Making to Policy Planning

...Policy planning is an improvement on policy making and came into vogue in the 1960s. Policy planning takes into account the present national and international scenarios as also the likely future contingencies in a given area of interest, and provides a menu of choices enabling the organisation, whether it is the government or any category of enterprise, to prepare itself in advance to meet those situations. Whereas, policy making is working out the response when one is face-to-face with a situation. Policy planning is of help in shaping events along directions conducive to best results while policy making caters to a current requirement in an existing context. The domains of politics and economics eminently lend themselves to policy planning rather than policy making. The reason is that once a political or economic event has come to pass, it becomes a question of catching up with its fallout by trying out suitable remedies, whereas what is of greater importance is either preventing such an event from happening at all, or minimising the harm and maximising the gains. There is all the difference between dealing with a looming crisis by anticipatory action and reacting to a crisis that has already occurred — in short, between fire-proofing and fire-fighting.

Holistic view

The Union Ministry of Home Affairs was the first to start a division for Political and Security Policy Planning of which I became the first Director in 1967; soon thereafter, the Union Ministry of External Affairs also set up a similar division for foreign policy studies with K. R. Narayanan, later President of India, as the Director. Both of us worked in concert taking a holistic view of policy planning in domestic and foreign affairs.

The implications of the Centre coming under coalition rule, the measures to be taken against political defections, the prospective geo-political and security scenarios in this part of the world, the need for mechanisms such as the South Asian Association for Regional Cooperation (SAARC) and South Asian Free Trade Association (SAFTA) were all part of the studies emanating from the two divisions.

The paper on the agrarian situation in States predicting in 1968 a phenomenon that subsequently came to be known as Naxalism has been widely cited in all academic discourses worldwide for its conclusion that in the absence of vigorous implementation of land reforms, the Green Revolution was bound to turn to red.

Ad hocism

Regrettably, the waning of enthusiasm on the part of Ministers and the present generation of civil servants for policy planning is the cause of ad hocism witnessed in the handling of issues at the Centre and in the States.

Disturbingly, the Government seems to be reacting to national security and terrorism on a tragedy-by-tragedy basis, rather than having a comprehensive and long-term strategy. The same tendency to wait on events instead of being abreast of them marks external relations as well.

Economic policy planning has not been much in evidence in India, even though it has had a galaxy of economists. Though their contribution to policy making by coming up with solutions on an as-is-where-is basis for problems surfacing from time to time can be said to be significant, there has not been any notable corpus of original or creative economic thought comparable to the output in industrial countries.

It is time policy planning was built into the process of decision making to enable the country to be ahead of developments without being overtaken by ugly surprises.

B. S. RAGHAVAN

Source: Business Line, March 16, 2008

machinery of the Government of India is a three-tiered one in which the policy-making organ is the secretariat; and implementation is the responsibility of the attached and subordinate offices.”

“But sound policy-making requires first-hand knowledge and experience of the conditions of implementation. This belief underlies the second administrative philosophy: that the policy-making organ of the Government of India must have no permanent cadre of officers but must instead be manned by personnel who are taken on fixed-term deputation from implementation levels so as to project field realities fully into the process of policy-making. The middle - and - senior level positions in the secretariat are filled by public personnel drawn from the all-India and central services, members of which generally work under the State Governments or the field agencies of the Central Government.”

5.5.2.3 However, in practice, the existing structure in Government of India combined with the allocation of powers and functions severely constrains the policy making role at the apex level. This is because Ministers as well as Secretaries to government, both at the Government of India and State levels, have multiple and demanding responsibilities pertaining to a wide range of policy, administrative and implementation activities. The time they can devote to each of these functions is seriously limited and they often do not find sufficient time to reflect on important policy and strategic issues. As a result, the policy-making capacity in India is often weak. The need to provide Ministers with high quality policy advice requires that secretaries to government and their supporting staff in the secretariat charged with policy advisory responsibilities do not get diverted by the demands of managing routine administrative and operational responsibilities. Perhaps this may be a reason for a large number of very useful reports lying un-analysed and thus unused.

5.5.2.4 As noted by the Commission in its Tenth Report on Refurbishing of Personnel Administration, the policy formulation function needs to be distinguished from those relating to policy implementation particularly in the case of senior civil servants. The Commission noted that “the need to provide the ministers with high quality policy advice requires that secretaries to Government and their supporting staff in the Secretariat with policy advisory responsibilities do not get diverted by the demands of managing routine administrative and operational responsibilities. This should call for a broad separation of policy formulation and implementation responsibilities. What this would imply is that the Ministries responsible for policy advice including the monitoring and evaluation of policy implementation should be separated from the departments and other entities responsible for delivery of services, operational matters and the enforcement of regulations. What is required, however, is not

merely a broad separation of policy operation, but also restructuring the design of the ministries to make them less hierarchical, creating flatter structures with team based orientation and reduce the excessive degree of central control now being exercised over operational matters.”

5.5.2.5 In any large organization, more so the Government, the apex level should concentrate on providing strategic direction to the organization by taking decisions on major policy issues rather than trying to manage routine administrative and operational matters. It is, therefore, critical that Ministers assisted by senior civil servants focus their energies on providing leadership and vision for the organizations under their charge while delegating routine operational functions to appropriate levels below them. This would enable the apex levels to lay down the broad policy guidelines for their organization while, at the same time, enabling the operational levels with the requisite autonomy and resources to implement these policies efficiently. The Commission recognizes, however, that there can be no water-tight separation of the policy making and implementation functions since Ministers are ultimately accountable to Parliament for the performance of their ministries and departments in all respects. In fact, the Government of India (Transaction of Business Rules) states that all business allocated to a Department in the Government of India, has to be disposed of under the directions of the minister in charge. However, Ministers can discharge their responsibilities in this regard more effectively by supervising the performance of operational agencies from time to time rather than taking routine operational decisions.

5.5.2.6 The Commission has considered how a degree of separation between the policy making and implementation functions of the ministries and other government agencies can be best achieved. Under the existing scheme, it is the minister who lays down the extent of delegation of various functions to different levels within the ministry as well as to its attached and subordinate offices. In order to enable the ministries, to effectively fulfil their policy making role and also to ensure uniformity across ministries, the Commission is of the view that some general principles to govern the extent of delegation may be incorporated in the Transaction of Business Rules. These principles may stipulate that the ministries should concentrate on the following:

- Policy making and strategic decisions
- Budgeting
- Monitoring of implementation
- Appointments of key personnel

- Coordination
- Evaluation

Attached and subordinate offices would serve as the executive agencies of the ministries and concentrate on the implementation of Government policies and programmes.

5.5.2.7 Recommendations

- a. **In order to make them binding, the general principles to govern the extent of delegation from Departments to their attached and subordinate offices (executive agencies) may be incorporated in the Transaction of Business Rules. These principles may stipulate that the Ministries/Departments should concentrate on the following:**
 - i. Policy analysis, planning, policy making and strategic decisions
 - ii. Budgeting and Parliamentary work
 - iii. Monitoring of implementation through systems and procedures
 - iv. Appointments of key personnel
 - v. Coordination
 - vi. Evaluation
- b. **Attached and subordinate offices should serve as the executive agencies of the ministries and concentrate on the implementation of Government policies and programmes.**

5.5.3 Policy Evaluation

5.5.3.1 While divesting the apex levels in the government with managing administrative and operational responsibilities so that they can concentrate on their policy advisory responsibilities, it is necessary that the quality of strategic policy-making is enhanced. Systematic policy evaluation, either at the time of the formulation of the policy or at periodic intervals to assess the current relevance of an established policy, is rare in India. Policies are often hastily conceived and hurried through the legislature without adequate consideration of long-term costs and benefits. Some of these ill-conceived policies became albatrosses and create problems for years before being abandoned or modified. Better appraisal of policies

through inter-disciplinary teams, wide public debate, and involvement of stakeholders and domain experts can reduce the dysfunctional consequences of public policies and increase the benefits. The idea should be to evaluate a policy carefully when it is first proposed, and thereafter evaluate periodically their relevance and costs and benefits. Although policy review is the responsibility of civil servants in each ministry, it will be useful to have an inter-disciplinary policy evaluation on a continuing basis. The policy evaluation system to be introduced, should lay down the criteria for evaluation including

- need for the new policy or the necessity of continuing the old policy
- efficiency with which it can be implemented/has been implemented (the ratio of its benefits to costs)
- the policy effectiveness in terms of its larger social purpose such as social equity or positive externalities
- priority in terms of government's developmental and good governance strategy.

5.5.3.2 Such policy evaluation should also highlight alternatives to the current ways of implementing the policy such as participation of the stakeholders in the governance structure for implementing the policy, and ways of assessing implementation on a fairly regular basis through surveys and the use of consultants for impact assessment.

5.5.3.3 Recommendation

- a. **Each Department should introduce a system of policy evaluation to be carried out at the end of prescribed periods. All relevant policies should be updated in the light of the findings of such evaluations.**

5.6 Creation of Effective Executive Agencies

5.6.1 Separation of policy and implementation would also call for changes in how the policy implementing agencies are structured. It is necessary that implementation bodies need to be restructured by giving them greater operational autonomy and flexibility while, at the same time, making them responsible and accountable for what they do. It is advisable that, for the purpose, autonomous organizations like executive agencies be set up to carry out operational responsibilities. The executive agency is not a policy-making body; but it is by now a time-tested, highly effective executing body in the public sector, analogous to the self-contained, quasi-autonomous division of a corporate body. 'Agencification', that is, extensive use of executive agencies in administration has been found useful in conducting an extremely wide

range of functions. The process known as ‘agencification’ has been the cornerstone of public service reforms around the world.

5.6.2 Executive Agencies in the UK

5.6.2.1 The most revolutionary step Britain took for revamping its public administration was the setting up of ‘executive agencies’, because it largely hollowed out Britain’s bureaucracy and professionalized the bodies that substituted the bureaucracy.

5.6.2.2 Based on a study of the progress of changes in the civil service, the government began setting up these agencies in the late 1980s (Commonwealth Secretariat, 1995a). The basic idea was that agencies should be carved out of government departments to carry out specific executive functions within a mandate, and a framework of policy and resources provided by the relevant minister. The attempt was to separate policy making from implementation, and to bring in professional management for implementation.

Each agency was headed by a chief executive with considerable operating freedom, subject, however, to the mandate, and the policy and resources framework. By the mid-1990s, about two-thirds of the chief executives of these agencies were recruited on the basis of open competition, and over a half of these were from outside the civil service. Most CEOs were given term contracts.

5.6.2.3 A small ‘Next Steps’ team consisting of civil servants was created to identify candidates for agency status. Before forming an agency, however, some tough questions were addressed: need the function be carried on at all; if yes, could it be privatized or contracted out; if no, would the agency be the best structure for it. Once the decision

Box No. 5.2 : Inland Revenues, Britain

In the 1990s, UK’s Department of Inland Revenues was responsible for the efficient administration of duties and direct taxes (Commonwealth Secretariat, 1995a; Khandwalla, 1999). It also provided policy advice to the relevant ministers, and provided valuation and other services. It was a big organization with over 60,000 employees, 40 million tax-paying ‘customers’, and 800 locations; it dealt with 150 million pieces of correspondence and 30 million calls annually, collected around \$160 billion in revenues, and had a \$30 billion annual budget. It was turned into an executive agency. The department was profoundly transformed by UK’s Financial Management Initiative, Next Steps, Citizens Charter, and Competing for Quality programmes for transforming government and government services. It responded to these by replacing over 100 government grades by five broad bands and new job titles tailor-made to the department; provided humane severance terms for surplus staff; stepped-up staff training and development; enhanced IT use and simultaneously transferred the staff, buildings, and equipment related to IT support to another agency; and empowered lower-level staff with greater responsibility and accountability. Above all, it tried to become more ‘customer’-oriented, and changed from a culture of command, control, and investigation to one of service, support, and audit. It developed and publicized the taxpayer’s charter.

Source: Extracted from Report prepared by Prof. Khandwalla.

was taken to form an agency, its mandate, objectives, etc., were crystallized into a ‘framework document’ that spelt out the policy framework, the agency’s mission and objectives, and the resources, pricing, and other operating constraints under which the agency was to operate. This was a very important document, because it constituted the mandate of the agency.

5.6.2.4 The annual budget and the annual targets of each agency were approved by the relevant minister. Thereafter the chief executive was personally responsible for the targeted performances. The agency’s annual report provided information on its activities and achievements against targets. The agencies had to make their accounts as per commercial practice on accruals basis. Ministerial responsibility to the parliament was restricted to policy, not operations, and parliamentary questions on operations were answered by the chief executive, not the minister.

5.6.2.5 By 2002, 75% of the civil servants were working in 127 executive agencies as the employees of the agencies (Alexander and others, 2002). These agencies undertook functions related to a great variety of services such as customs and excise collection, employment service and benefits, vehicle and driver licensing, issue of passports, child support, prison management, R&D, and weather forecasting. In size, these agencies ranged widely - from around 40 persons to a staff of some 90000. A growing number of these agencies operated as trading funds, and had considerable freedom to manage their own funds. These were not subject to advance parliamentary approval for their income and expenditure, but were expected not to have deficits. As a consequence, agencies were now much more sharply aware of unit costs and were more inclined to find ways of cutting them.

5.6.2.6 Earlier, annual pay increases in the government were not linked to performance. The agencies and departments of the government now got increased autonomy to hire and fire. After 1990, departments and agencies were responsible for recruiting over 95 per cent of their staff. As of the mid-1990s, the government required all new pay agreements to have performance-linked pay as their basis. Agencies and departments had the freedom to negotiate with unions the extent of performance-related pay component.

5.6.2.7 ‘Agencification’ has been a success in Britain and elsewhere. Running costs of the government as a share of public spending declined in Britain from 9% in 1992 to 8% in 1995, that is, by over 10%, partly because of the efficiencies implemented by executive agencies. A comprehensive review was commissioned by the government in 2002 (Alexander and others, 2002). The Report dealt with 92 executive agencies managed by ‘Whitehall’ (UK central government) departments (the rest 35 were dealt with by the governance bodies of Scotland, Northern Ireland, and Wales).

5.6.2.8 The Report also concluded that the agency model has led to clarity and focus on specified tasks; a culture of service delivery; empowerment of frontline staff; greater accountability and openness; contextually appropriate structures and systems compared to the earlier standardized, monolithic government system; innovative thinking and action; development of brand for the services offered; better risk management; and greater tendency to expose problems rather than keeping them hidden (pp. 17-18). Some of its major recommendations were that the departments and agencies must work together to bridge the gulf between policy development and implementation, and fill high-level skills gaps in departments and agencies.

5.6.3 New Zealand

5.6.3.1 Agencification in New Zealand was done through the enactment of two legislations - the State Sector Act, 1988 and the Public Finance Act, 1989. The State Sector Act made major changes in the management, personnel and labour practices of the government. Chief Executives were appointed to be in charge of implementing departments for a fixed term under contract with the State Services Commission. The Chief Executives were given all the rights, duties and powers of an employer in respect of their departments. They were authorized to appoint staff and remove them. The Public Finance Act introduced the output/outcome framework as the basis for accountability relationship between the ministers and the Chief Executives. It also provided for a performance agreement to be signed between the Chief Executive and the concerned minister every year. The Act also devolved financial management and control from the Treasury to the line departments. The Chief Executives were made responsible, under the Act, for financial management, financial performance, accounting requirements, and assets and cash management in their agencies. In other words, the tight regimen of input control that the Treasury had exercised was dismantled and there was devolution of financial management to the line departments.

5.6.4 Australia

5.6.4.1 All the line departments in Australia operate in the agency mode. The Public Service Act of 1999 includes a range of initiatives that provides for improving public accountability

for performance, increasing competitiveness and enhancing leadership in the agencies. These initiatives include

- public performance agreements for the Agency Heads
- replacement of out-of-date hierarchical controls with more contemporary team-based arrangements
- greater devolved responsibility to the agency levels
- giving agencies flexibility to decide on their own systems for rewarding high performance
- streamlined administrative procedures
- a strategic approach to the systematic management of risk.

5.6.4.2 The Financial and Accountability Act, 1997 provides the accountability and accounting framework for the agencies. Under this Act, the Agency Heads are given greater flexibility and autonomy in their financial management. The Act requires Agency Heads to

- manage resources in an efficient, effective and ethical manner
- prepare fraud control plans
- establish high-level audit committees.

5.6.4.3 In April 1997, an accrual-based output/outcome framework was introduced in the agencies for management of resources. The objective was to put in place a framework that would manage for results by developing robust indicators to assess the performance of the agencies in terms of outcomes for clients. In the past, the systems in the Australian government had been pre-occupied with process, and performance was evaluated in terms of the quantity of resources consumed rather than the quality of outcomes.

5.6.5 Japan

5.6.5.1 Agencification began in Japan in April 2001. The Japanese agencies are called Independent Administration Institutes (IAIs) and were instituted under an empowering law.

The formation of the agencies was subject to the following criteria:

- If the central government did not have to perform the activity
- If privatized, the private sector could not ensure that public goals would be achieved
- The national economy depended on the implementation of that activity.

5.6.5.2 For each agency, the agency submits a plan for approval within the ambit of the ministerial directive. The plan consists of the budget and targeted improvements in efficiency and quality of the services provided. The minister normally sets 3-5 year goals for the agency. Each agency gets an operating grant to pay for any expected deficit, and a subsidy for its capital expenditure. There are no restrictions on how to spend the operating grant so long as the expenditure is for meeting objectives. Unspent balances can be carried forward, and the operating surpluses can be retained. The chief executive of the agency is appointed by the minister and is directly accountable to the minister. The chief executive appoints the senior executives of the agency on a contract appointment basis with performance-related pay.

5.6.6 Sweden

5.6.6.1 There are about 300 agencies in Sweden and actual operations of the government are conducted by these agencies. Approximately 99% of civil servants in Sweden are employed by the agencies while the remaining 1% work with the ministries.¹¹ What distinguishes the agencies in Sweden from the line departments of the government in other countries is the independence that the agencies in the Swedish government enjoy. They are independent to take their own decisions, and they are free from any control and regulation by the central government. There is very clear separation between the ministries on the one hand and the agencies on the other. Such separation of policy and operational functions has been a hallmark of the Swedish government's functioning for over 200 years.¹² The results expected of the agencies are specified in the Letter of Instruction which the ministries issue to each agency. The contents of the Letter of Instruction includes a review of how the agency's work contributes to the government's desired outcomes, a specification of objectives and targets at an operational level, and how the agency should report back on the results achieved.

5.6.7 Thailand

5.6.7.1 In 1999, Thailand decided to borrow the agencification model from the Western countries, namely the United Kingdom's executive agencies and New Zealand's crown entities. Creation of agencies, called Autonomous Public Bodies (APOs), was empowered

through a legislation. From 1999 to 2004, 17 APOs were established. These operate in the areas of education, commerce, tourism and sports, health, social development, culture, science and technology, energy, information technology, agriculture and cooperatives. Their sizes are small. Each is run by a strong board appointed by the concerned minister. The board appoints the CEO. The agency boards are typically chaired by ministers, permanent secretaries, other senior bureaucrats and advisors.

5.6.8 How have the Executive Agencies worked?

5.6.8.1 As mentioned earlier, agencification has been a success in the UK and elsewhere. A comprehensive review that was commissioned by the UK government in 2002 concluded, "the executive agencies brought about revolutionary changes in the culture, processes and accountabilities of those services delivered directly by central government... The agency model has changed the landscape of government. Extremely flexible, it provides the most responsive and accountable framework for delivering executive functions from within central government... The agency model has been a success."¹³

5.6.8.2 In New Zealand, the experiment with agencification has also been a success. The State Services Commission observed in 1994, "The now much smaller core public service is beginning to show clear improvements in operating efficiency and in responsiveness to clients. It costs the government less than it did ten years ago, and is no longer a regulatory impediment to ideas and productive energies in the wider economy and community."¹⁴ In Australia, over the first four years of agencification (1988-89 to 1992-93), the commercial and quasi-commercial revenues of the agencies nearly doubled, and these covered nearly 30% of the total running costs of these bodies in 1992-93 as compared to about 15% in 1988-89.¹⁵ The Australian agencies appear to have improved their performance significantly under a regime of autonomy and professional management.¹⁶ In Japan, research in 57 agencies in 2003 revealed that operating economy of these bodies had increased, employees had become more quality, cost-reduction and customer-oriented, and effectiveness had improved.¹⁷

5.6.8.3 As can be seen, a key initiative that these reforming countries have undertaken in revamping their system of public administration is setting up of executive agencies to carry out the operational responsibilities of the government within a policy and resources framework set

¹³Alexander and others, *Better Government Services: Executive Agencies in the 21st Century* (2002), Report commissioned by the British Government.

¹⁴New Zealand State Services Commission, (1994), p.18

¹⁵John Dixon, Alexander Kouzmin and Nada Korac-Kakabadse, "The commercialization of the Australian Public Service and the accountability of government: a question of boundaries", *International Journal of Public Sector Management*, vol. 9, 5/6 (1996), pp.23-36

¹⁶John S. Dawkins, "Achieving improvements in economic transitions: the Australian experience", *Public Administration and Development*, vol.15,3 (1995), pp.237-244

¹⁷Kiyoshi Yamamoto, "Performance of semi-autonomous public bodies: linkage between autonomy and performance in Japanese agencies", *Public Administration and Development*, vol.26 (2006), pp 35-46

¹¹ESV (2001), *Accrual Accounting in the Swedish Central Government*

¹²J R Blondal, *Budgeting in Sweden* (2001), OECD

by the government. As we have seen, total management and financial responsibility has been given to these executive agencies so that they are able to put in place structures and processes that match their needs and deliver results as agreed upon. On the whole, agencification has led to clarity and focus on specified tasks, a culture of service delivery, greater accountability and openness, contextually appropriate structures and systems compared to the earlier standardized and monolithic systems, innovative thinking and action, development of a brand for the services offered, better risk management, and greater tendency to expose problems rather than keep them hidden.¹⁸

5.6.9 Position in India

5.6.9.1 In India, while some agencies are structured as Departments of Government, some have statutory backing and others are registered as a company, cooperative, trust or a society. The line departments of the government are not in a position to optimally deliver government services largely because of the overwhelming nature of centralised controls they are subjected to and the lack of operational autonomy and flexibility. Centralised controls as they exist now reinforce a focus on inputs rather than results and are a great stumbling block to performance.

5.6.9.2 At present, micro-management is the culture in the ministries. It is, therefore, necessary that the detailed central controls are replaced by guidelines and minimum standards. While standards need to be maintained, advice provided and best practices promoted, the culture must be one of facilitation, not of undue intervention. Civil servants in the implementing agencies must be given autonomy, greater flexibility and incentives to achieve results.

5.6.9.3 From the experience of agencification in other countries as well as in India, the term public sector in a broader sense refers to a continuum starting with the departmental undertakings at one end and stretching towards autonomous agencies and offices to corporatised units on the other. For example, in India, the Railways is organized as a departmental agency undertaking, scientific establishments are structured under autonomous organizations like the CSIR, Space Commission etc while a large number of units working on commercial lines are organized as companies (Public Sector Undertakings). The relationship between the different types of government organizations and the government is schematically presented in Fig. No. 5.1. The relationship of Government with departmental undertakings is one of direct control and supervision but it shifts towards greater autonomy when accountability is sought to be ensured through performance agreements and contracts.

5.6.9.4 The Commission is of the view that each Union Government Ministry should scrutinize the activities and special purpose bodies of the Ministry. The following questions

should be asked as a prelude to the formation of the Ministry's executive agencies:

Does the activity/special purpose vehicle need to be carried on at all? Ministries often accumulate activities and bodies that have no use in the present context. Such bodies and activities need to be identified for closure, and their staff should be re-deployed.

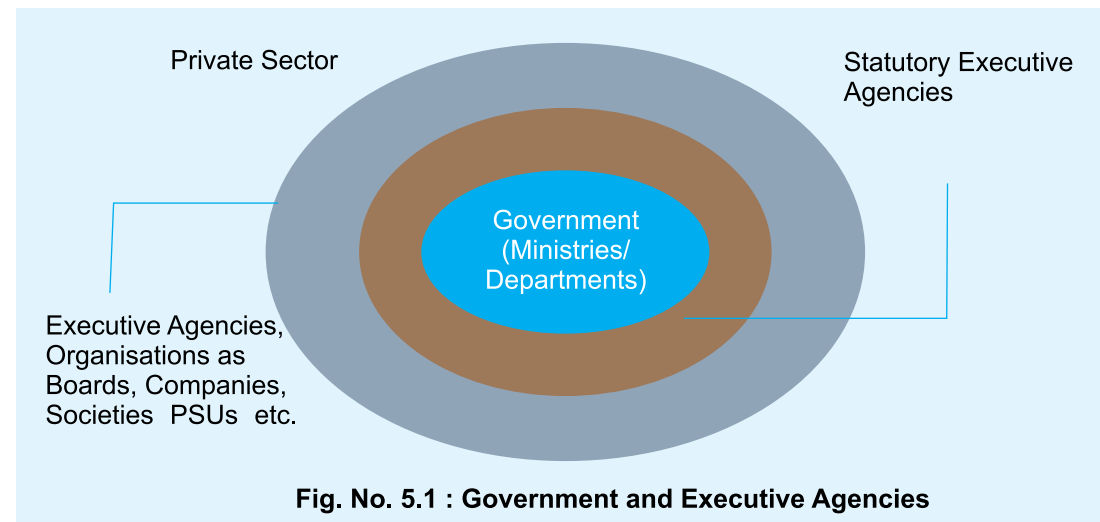
If the activity/body is seen to be necessary in today's context, should the activity be administered by the ministry, in the light of the management capacities available in the civil society and corporate public and private sectors and in the light of current governance priorities? If serious equity or security issues or legal issues are not involved, many government activities can be safely outsourced to institutions in the civil society/corporate public or private sector, if this is more cost effective than the ministry carrying on the activity.

5.6.9.5 Each agency, whether a new body or an existing departmental undertaking/agency/board/special purpose body etc. that is to function as an executive agency, must be semi-autonomous or autonomous and professionally managed under a mandate. Such executive agencies could be structured as a subordinate office of the department or as a board, commission, company, society etc. (Figure No. 5.1)

5.6.9.6 While the precise structuring of the executive agency, as a subordinate office of the department or as a board, commission etc would be determined by the nature of functions entrusted to it, the Commission feels that the company form of structure could be adopted for government organizations whose activities are primarily in the business environment, often in competition with private sector players. In the social sector on the other hand, a society form of organization would be more appropriate because they cannot work as profit centres. Some activities of national importance or of a strategic nature would require the organizations concerned to have statutory backing like the Atomic Energy Commission, the Space Commission etc or will have to be carried out by departments themselves.

5.6.9.7 Mere creation of executive agencies is not an end in itself. What is equally important is to ensure that the right balance between autonomy and accountability is struck while designing the institutional framework of the agency, which, in turn, would be determined by the nature of activity/functions entrusted to it. This could be achieved through well designed performance agreements, Memorandum of Understanding (MOU), contracts etc. However, preparing and enforcing such performance contracts requires considerable upgradation of

¹⁸Alexander and others, Better Government Services: Executive Agencies in the 21st Century (2002), Report commissioned by the British Government



capacity in the concerned government departments.

5.6.10 Recommendations

- a. Each Union Government Ministry should scrutinize the functions/activities of the ministry to confirm whether these activities/functions are critical to the mission of the Department and can only be carried out by government agencies. This should be done with reference to core areas mentioned by the Commission in para 4.1.1.a.
- b. Only those functions/activities that are in line with the principles enunciated in paragraph 5.5.2.7 (a) should be carried out directly by the Department/ Ministries. Other functions/activities should be carried out by the executive agencies of the department.
- c. Each agency, whether a new body or an existing departmental undertaking/ agency/board/special purpose body etc. that is to function as an executive agency, must be autonomous or semi-autonomous and professionally managed under a mandate. Such executive agencies could be structured as a department, board, commission, company, society etc.
- d. The right balance between autonomy and accountability needs to be struck while designing the institutional framework of executive agencies. This could be achieved through well designed performance agreements, Memorandum of Understanding (MOU), contracts etc. However, preparing and enforcing

such performance contracts requires considerable upgradation of capacity in the concerned government departments.

5.7 Internal Reorganisation of Ministries

5.7.1 Organisational structure refers to the formal and informal patterns of relationship by which an institution organizes and distribute powers. The structure of an organization has also been defined¹⁹ as “the architecture both visible and invisible which connects and weaves together all aspects of an organization’s activities so that it functions as a complete dynamic entity”.

5.7.2 Bureaucracies everywhere, have generally been structured on principles of hierarchy, top down authority and control. They are usually compartmentalized into layers in a vertical hierarchy and while bureaucracies are generally identified with Governments, they can be the part of any large organization. Based on the experiences in the private sector, management theory today focuses on various attempts to break free from the traditional bureaucratic structure. “The new watchwords are teams (preferably cross-functional), lateral communications, the minimization (if not outright removal) of hierarchy, and the sparse use of rules. Informality and the exploitation of expertise, wherever it may lie in the corporation, are the essential idea. With some variance in emphasis, the same basic tenets can be found underpinning the so-called “high performance work systems” and the “knowledge creating companies”²⁰.

5.7.3 While the traditional or classical model of bureaucracy was of a rigid, inflexible, control driven, hierarchical, uniform and centralized organizational structure, the present paradigm focuses on flatter, less hierarchical, and more flexible, multi-disciplinary organisational structures.

5.7.4 The structure in the Ministries and Departments emanates from the Transaction of Business Rules as well as from the Manual of Office Procedure. The Manual defines the following terms:

Department -

- (1) A department is responsible for formulation of policies of the

¹⁹From paper entitled “Considering Organisation Structure and Design from a Complexity Paradigm Perspective” by Elizabeth McMillan

²⁰Mabey, Salaman & Storey (2001, p-164)

- government in relation to business allocated to it and also for the execution and review of those policies.
- (2) For the efficient disposal of business allotted to it, a department is divided into wings, divisions, branches and sections.
 - (3) A department is normally headed by a secretary to the Government of India who acts as the administrative head of the department and principal adviser of the Minister on all matters of policy and administration within the department.
 - (4) The work in a department is normally divided into wings with a Special Secretary/Additional Secretary/Joint Secretary in charge of each wing. Such a functionary is normally vested with the maximum measure of independent functioning and responsibility in respect of the business falling within his wing subject to the overall responsibility of the Secretary for the administration of the department as a whole.
 - (5) A wing normally comprises a number of divisions each functioning under the charge of an officer of the level of Director/Joint Director/Deputy Secretary. A division may have several branches each under the charge of an Under Secretary or equivalent officer.
 - (6) A section is generally the lowest organisational unit in a department with a well-defined area of work. It normally consists of assistants and clerks supervised by a Section Officer. Initial handling of cases (including noting and drafting) is generally done by assistants and clerks who are also known as the dealing hands.
 - (7) While the above represents the commonly adopted pattern of organisation of a department, there are certain variations, the most notable among them being the desk officer system. In this system the work of a department at the lowest level is organised into distinct functional desks each manned by two desk functionaries of appropriate ranks e.g. Under Secretary or Section Officer. Each desk functionary handles the cases himself and is provided adequate stenographic and clerical assistance.

- (8) The other notable variation is the Integrated Headquarters of Ministry of Defence where, the Vice Chiefs of Staff, the Principal Staff Officers of the concerned branches and other appropriate authorities, exercise the powers delegated by the Raksha Mantri through the various Branches and the Directorates of the Integrated Headquarters of the Ministry of Defence.
- (9) Functions of various levels of functionaries :
 - (a) Secretary – A Secretary to the Government of India is the administrative head of the Ministry or Department. He/she is the principal adviser of the Minister on all matters of policy and administration within the Ministry/Department, and his/her responsibility is complete and undivided.
 - (b) Special Secretary/Additional Secretary/Joint Secretary – When the volume of work in a Ministry exceeds the manageable charge of a Secretary, one or more wings may be established with Special Secretary/Additional Secretary/Joint Secretary, in charge of each wing. Such a functionary is entrusted with the maximum measure of independent functioning and responsibility in respect of all business falling within his/her wings subject to the general responsibility of the Secretary for the administration of the wing as a whole.
 - (c) Director/Deputy Secretary – Director/Deputy Secretary is an officer who acts on behalf of the Secretary. He/she holds charge of a Secretariat Division and is responsible for the disposal of Government business dealt within the Division under his/her charge. He/she should, ordinarily be able to dispose of the majority of cases coming up to him/her on his/her own. He/she should use his discretion in taking orders of the Joint Secretary/Secretary on more important cases, either orally or by submission of papers.
 - (d) Under Secretary – An Under Secretary is in charge of the Branch in a Ministry consisting of two or more Sections and in respect thereto exercises control both in regard to the despatch of business and maintenance of discipline. Work comes to him from the sections under his charge. As Branch Officer he disposes of as many cases as possible at his own level but

- he takes the orders of Deputy Secretary or higher officers on important cases.
- (e) Section Officer -
- A. General duties
 - B. Responsibilities relating to Dak
 - C. Responsibilities relating to issue of draft
 - D. Responsibility of efficient and expeditious disposal of work and checks on delays
 - E. Independent disposal of cases
 - F. Duties in respect of recording and indexing
- (f) Assistant/Upper Division Clerk – He works under the orders and supervision of the Section Officer and is responsible for the work entrusted to him. Where the line of action on a case is clear or clear instructions have been given by the Branch Officer or higher officers, he should put up a draft without much noting. In other cases, he will put up a note keeping in view the following points :-
- (i) to see whether all facts open to check have been correctly stated;
 - (ii) to point out any mistakes or incorrect statement of the facts;
 - (iii) to draw attention, where necessary, to precedents or Rules and Regulations on the subject;
 - (iv) to put up the Guard file, if necessary, and supply other relevant facts and figures; and
 - (v) to bring out clearly the question under consideration and suggest a course of action wherever possible.

- (g) Lower Division Clerk – Lower Division Clerks are ordinarily entrusted with work of a routine nature, for example – registration of Dak, maintenance of Section Diary and File Registers, indexing and recording, typing, despatch, preparation of arrears and other statements, supervision of correction of reference books and submission of routine and simple drafts etc.

5.7.5 As is evident from the Manual of Office Procedure, a department in the Government of India has a vertical hierarchical structure with the Secretary as the administrative head and several levels comprising Special Secretary/Additional Secretary, Joint Secretary, Director/Deputy Secretary, Under Secretary and Section Officer/Desk Officer.

Ministry	Minister/MOS
Department	Secretary
Wing	Special Secretary/Additional Secretary/Joint Secretary
Division	Director/Deputy Secretary
Branch	Under Secretary
Section	Section Officer

(In several Ministries, in place of Section Officers attached to a section, a Desk Officer System is in place)

5.7.6 Thus there are six levels in most Ministries and if one were to include the dealing hand (usually an Assistant/UDC/LDC), the number of levels actually comprises seven. A hierarchical multi-level structure has certain strengths but several weaknesses. While such a system enables a vertical division of labour with extensive supervision and checks and balances at different levels, it also causes delays due to sequential examination, dilutes rather than enhances accountability, prevents an inter-disciplinary approach towards solving problems and kills creativity. For routine regulatory matters such as issue of licenses/permissions etc., such a rigid hierarchical structure with prescribed workflows and adequate delegation may be appropriate, but for functions like policy formulation, managing change, crafting a holistic approach on inter-disciplinary matters, problem solving etc. it does not give optimum results and in fact could be counter productive.

5.7.7 A new approach to policy making would call for restructuring the design of the ministries to make them less hierarchical, by creating flatter structures with team-based orientation. The ministries, as they function now, are centralized, hierarchical organizations tightly divided into many layers, boxes and silos. Much of the civil service hierarchies in the ministries continue to be structured along traditional lines of authority, carefully regulated to ensure that as few mistakes are made as possible. The staff in the ministries is more concerned with internal processes than with results. The systemic rigidities, needless complexities and over-centralization in the policy-making structures are too complex and too constraining. There are too many decision points in the policy structures, and there are a large number of veto points to be negotiated for a decision to emerge. While such hierarchical exercise of authority provides some control of quality and integrity of decision-making, it often leads to exasperating delays and takes the focus away from delivering results. It is necessary that these hierarchies should be dismantled and team-based structures be introduced.

5.7.8 The Commission is of the view that the structure as well as the procedures of Government Departments require significant changes. In particular, greater flexibility is required both in the structure as well as the procedures to deal with the different functions assigned to different Departments. This would require flexible organizational structures which can reorient themselves to tackle evolving situations.

5.7.9 The Commission feels that the best way to achieve the objective of reducing delays and creating more responsive, efficient and accountable organizational structures would be by modifying the existing structure of the Government Departments and incorporating elements of team based working for achieving the tasks and objectives assigned to them. As mentioned earlier, the Ministries would basically concentrate on policy making, supervision, monitoring and evaluation and budgetary processes while leaving the implementation to executive agencies (attached / subordinate offices). Functions like supervision and monitoring and evaluation could continue to be performed through the traditional organizational structure. This issue is further elaborated in the following paragraphs.

5.8 Simplification of Governmental Processes

5.8.1 Government organizations are bureaucratic. The term 'bureaucratic' often carries a negative image and denotes red tapism, insensitivity and the rule bound nature of an organization. When Max Weber propounded 'bureaucracy' as a form of organization he meant organizations structured along rational lines, where:

- offices are placed in a hierarchical order

- operations are governed by impersonal rules thereby reducing discretion. There is a set of rules and procedures to cater for every situation
- officials are given specific duties and areas of responsibility
- appointments are made on the basis of qualifications and merit

5.8.2 Unlike a commercial organization which is driven by the sole profit motive, government organizations have multiple objectives, government organizations function in a more complex environment, the situations which government organizations face are much more varied and challenging and above all government organizations are accountable to several authorities and, above all, to the people. In a commercial organization, the test of profitability determines the decision. This is not possible in government organizations and therefore rules and procedures are developed to minimize discretion, and guide the decision making process within the organization. This is not to say that private commercial organizations never have bureaucratic structures or do not have internal rules but their rules are usually not as elaborate and as rigid as in government organizations. Rules and procedures in government ensure that the organization is able to deal with people in an equitable, predictable and fair manner. However, rigid adherence or over dependence on these tends to curb innovation and reduce organisational responsiveness and sensitivity.

5.8.3 The rules and procedures which govern the working of government organizations are laid down in various laws, regulations and executive instructions. There are general rules which apply to all government Ministries/Departments. There may also be rules applicable to only a particular organization. The general rules which lay down the procedures in government are provided in the Secretariat Manual of Office Procedure. The Manual has been amended from time to time in order to adapt the procedures to emerging challenges. The current procedures have several strengths as well as weaknesses.

5.8.4 Strengths

5.8.4.1 Recordkeeping

5.8.4.1.1 The present office procedures ensure an elaborate system for maintaining records of "not only what has been done but also of why it was so done". The present system of files moving across many levels, with each level clearly recording its views/ decisions, leads to creation of an institutional record of how decisions, past and present, were/are arrived at.

5.8.4.1.2 While the present system undeniably creates voluminous manual records, the use of this data remains constrained due to lack of proper categorization, referencing and access systems.

5.8.4.2 Accountability

5.8.4.2.1 An elaborate system of paper based records helps in pin-pointing responsibility for each decision made in a Government Department. In theory, this would also ensure that accountability can be enforced for wrong decisions.

5.8.4.2.2 In practice however, the system fosters risk avoidance and inhibits free and fair expression of views by honest officers for fear of reprisal on the one hand while the involvement of multiple individuals in the decision making process can lead to diffusion of accountability.

5.8.4.3 Institutional memory

5.8.4.3.1 A robust record maintenance system helps in the creation of an institutional memory of past policies and precedents that can guide future decision making.

5.8.4.3.2 While reliance on institutional memory may be desirable in cases where uniformity of approach is required but when it comes to new and emerging problems, a blind application of such precedents may prove counter productive. Over-reliance on precedents, discourages independent application of mind and inhibits creative approaches to problems. Another drawback is that even in routine decision making where such institutional memory can be best used, absence of effective data retrievable systems leads to 'cherry picking' precedents to suit one's convenience.

5.8.4.4 Inbuilt Redundancy-self Correcting

5.8.4.4.1 Examination of an issue on file by multiple levels enables repeated scrutiny which in turn enables correction of errors and omissions at any particular level and thus creates a kind of self correcting mechanism.

5.8.4.5 Insulates Individual Functionaries from Extraneous Influences

5.8.4.5.1 The present office procedures enable individual functionaries to record their independent views on the files. The system, at least in theory, safeguards the right of expression

of individual functionaries and protects them from extraneous influences and victimization, more so with the coming in force of the Right to Information Act.

5.8.5 Weaknesses

5.8.5.1 Multiple Layers Lead to Inefficiency and Delays

5.8.5.1.1 The Manual of Office Procedure lays down at least seven to eight levels –from the dealing hand to the Minister - through which papers usually pass before decisions are taken. It has also been observed that many of the levels do not make any significant contribution in decision making. Multiple scrutiny inevitably leads to delays, and abdication of responsibility in the examination process in the erroneous belief that other levels would ensure adequate analysis.

5.8.5.2 Fuzzy Delegation

5.8.5.2.1 The multiple levels, as stated above, combined with vague and/or inadequate delegation encourages 'reverse delegation' of work to higher levels. This is particularly because the Manual is extremely vague as regards the specifics of delegation especially at the level of Under Secretary/Deputy Secretary/Director/Joint Secretary. For example, it has been provided that:

- (b) Special Secretary/Additional Secretary/Joint Secretary – When the volume of work in a Ministry exceeds the manageable charge of a Secretary, one or more wings may be established with Special Secretary/Additional Secretary/Joint Secretary, incharge of each wing. Such a functionary is entrusted with the maximum measure of independent functioning and responsibility in respect of all business falling within his wing subject, to the general responsibility of the Secretary for the administration of the wing as a whole.
- (c) Director/Deputy Secretary – Director/Deputy Secretary is an officer who acts on behalf of the Secretary. He holds charge of a Secretariat Division and is responsible for the disposal of Government business dealt within the Division under his charge. He should, ordinarily be able to dispose of the majority of cases coming up to him on his own. He should use

his discretion in taking orders of the Joint Secretary/Secretary on more important cases, either orally or by submission of papers.

- (d) Under Secretary – An Under Secretary is in charge of the Branch in a Ministry consisting of two or more Sections and in respect thereto exercises control both in regard to the despatch of business and maintenance of discipline. Work comes to him from these sections under his charge. As Branch Officer he disposes of as many cases as possible at his own level but he takes the orders of Deputy Secretary or higher officers on important cases.

5.8.5.2.2 The Manual apparently envisages that all three levels mentioned above can take independent decisions. But this has not been spelt out adequately and is presumably left to individual Departments to specify. In practice, however, it has been observed that many Departments have not done so thus leaving it to the discretion of individual officers whether to dispose of matters at his level or send it to the next level. Due to a pervasive culture of risk avoidance, the inevitable result is the practice of routinely sending all files upwards.

5.8.5.3 Focus on File Management at the Expense of outcomes

5.8.5.3.1 The Manual of Office Procedure states that:

“The ultimate object of all Government business is to meet the citizens’ needs and to further their welfare without undue delay. At the same time, those who are accountable for the conduct of that business have to ensure that public funds are managed with utmost care and prudence. It is, therefore, necessary, in each case, to keep appropriate record not only of what has been done but also of why it was so done.”

5.8.5.3.2 Even though the manual emphasizes the importance of outcomes over processes, the bulk of the stipulations are focussed on file management and recordkeeping. The Manual does not appear to recognize that the goal of process compliance is subservient to the goal of achieving the outcomes targeted by the Department. For example, the ultimate objective appears to be ‘Final Disposal’ of a case which is defined as:

‘Final disposal’ in relation to a case under consideration means completion of all actions thereon culminating, where necessary, in the issue of final orders or final reply to the party from which the original communication emanated.

5.8.5.4 Reactive Rather than Proactive Approach

5.8.5.4.1 The Manual of Office Procedure appears to emphasise the action to be taken on receipt of papers rather than on a proactive approach towards the Departments’ priorities. Even the definition of the work to be done by the Under Secretary seems to reiterate this approach.

Under Secretary – An Under Secretary is in charge of the Branch in a Ministry consisting of two or more Sections and in respect thereto exercises control both in regard to the despatch of business and maintenance of discipline. Work comes to him from the sections under his charge. As Branch Officer he disposes of as many cases as possible at his own level but he takes the orders of Deputy Secretary or higher officers on important cases.

5.8.5.4.2 Similarly, the Paper Under Consideration (PUC) which sets the process in motion is defined as follows:

‘Paper under consideration (PUC)’ means a receipt on a case, the consideration of which is the subject matter of the case.

5.8.5.5 Absence of Team-based Working

5.8.5.5.1 The multiple levels along with division of task into separate units leads to creation of quasi-independent silos within each department. Complex issues requiring a multi-disciplinary approach thus get embroiled in turf battles rather than generating a holistic approach. The need for inter-disciplinary work teams for dealing with cross-cutting issues is not met due to the hierarchical and heavily segmented structure combined with procedures that constrain team efforts.

5.9 Recasting the Manual of Office Procedure

5.9.1 Well defined delegation at all levels

5.9.1.1 As per the Transaction of Business Rules, the work in any Department has to be carried out under the specific or general instructions of the Minister. Since it is not humanly possible for the Minister to take all decisions, the implication is that there should be a detailed scheme

of delegation of decision making powers at all levels in the Ministry/Department. A scheme of delegation does exist in each Ministry/Department and is also mentioned in the Manual of Office Procedure, but their specific contents vary in different Ministries/Departments and is also not well defined in some cases. Even though the Manual of Office Procedure states that officers at the level of Joint Secretary/Additional Secretary/Special Secretary are “entrusted with maximum measure of independent functioning and responsibility in respect of all business falling within their wings”, in actual fact it is observed more in its breach than in reality. It has been observed that in many Departments it is left to the discretion of the officers concerned to judge for themselves, the level at which a particular matter is to be decided. The experience has been that officers often tend to ‘play safe’ and ‘mark’ files to higher levels even in respect of routine matters.

5.9.1.2 The Commission feels that these issues can best be resolved by ensuring that each Ministry/Department lays down a detailed scheme of delegation at all levels so that the decision making takes place at the most appropriate level. The Commission is of the view that it should be laid in the Manual of Office Procedure that every Ministry/Department should prescribe a detailed scheme of delegation for its officers. This delegation should be arrived at on the basis of an analysis of the activities and functions of the Ministry/Department and the type of decisions that these entail which should be dovetailed with the decision making units identified in that Department. This should be updated periodically and should also be ‘audited’ at regular intervals to ensure adherence to the scheme of delegation. The audit should ensure that the delegated authority is actually exercised by the delegatee. The scheme of delegation should be placed in the public domain. The basic principle underlying the scheme of delegation should be that no item of work should be handled at a level higher than where it ought to have been dealt with.

5.9.2 Minimising levels to reduce delays

5.9.2.1 As mentioned in paragraph 5.7.6, there are at least 7 levels from the dealing hand to the Minister whose views are recorded on a file (often without or much value addition) before a decision is taken. The number of layers and the time taken in the physical movement of files leads to considerable delays and inefficiencies. Though the Manual of Office Procedure provides for ‘level jumping’ and some Ministries have taken the initiative to reduce the number of levels, it is felt that Government of India as a whole should take a major initiative to minimize layers to improve the quality of decision making and significantly reduce delays.

5.9.2.2 The Commission feels that the number of levels through which a file should pass for

a decision should not exceed three. Only in cases where the Minister’s approval is required, should the file be initiated by the Deputy Secretary/Director concerned and moved through the Joint Secretary (or Additional Secretary/Special Secretary) and the Secretary (or Special Secretary) to the Minister. Cases requiring approval of the Secretary should go through just two levels (e.g. either US and Director, US and JS or Director and JS). Cases requiring approval of the JS/Director/DS should come through just one level. The exact combination of levels should be spelt out in the scheme of delegation for each Ministry/Department whereas the number of levels as suggested above should be prescribed in the Manual of Office Procedure.

5.9.3 Shift from process compliance to outcomes

5.9.3.1 The Manual of Office Procedure emphasizes the importance of processes, but its stipulations are largely related to file management and recordkeeping. In practice, this has therefore meant dilution of the intended focus on outcomes. The Commission understands the importance of processes but would like to reiterate that instead of blind adherence to processes it is necessary to acknowledge the spirit behind the processes also. The Commission feels that this can be remedied by each Department specifying its key objectives. The tasks assigned to each departmental unit should be linked to these objectives. The Commission in its Tenth Report has suggested the introduction of a performance management system in the Government. The salient features of such a system should be incorporated in the Manual of Office Procedure. This would ensure a built-in evaluation system to assess the quality of decision making

5.9.4 Innovative approaches through multi-disciplinary work teams

5.9.4.1 At present, the increasing need for inter-disciplinary work teams to deal with the complex issues being handled by each Department is not being met due to the hierarchical and segmented structure prescribed in the Manual of Office Procedure. The Commission feels that there should be greater flexibility for the concerned Department to adopt the structure best suited for their work. The Commission would like to emphasise that the conventional hierarchical structure may be well suited for certain routine administrative functions, but for other activities which require a more holistic approach, flatter structures are more relevant and useful. For addressing complex cross cutting issues that cannot be handled in the traditional manner, the Secretary of the concerned Department should have the flexibility to create such team based structures. Such an approach would also help to better utilize the

skills and capabilities available among the civil servants. This would also serve to improve the morale and motivation of civil servants who otherwise may be restricted to their limited assignments.

5.9.5 Shift from an ad-hoc application of precedents to systematic classification and transparent use of past records

5.9.5.1 One of the tenets of bureaucracy is application of rules to decide specific cases to ensure uniformity, transparency and objectivity. Since it is not possible for rules to cover every conceivable situation, precedents are often cited where rules are silent. Although reliance on precedents has its advantages in that it enables one to avoid re-examination of similar cases, it also has the disadvantage that it may promote a culture of blind adherence to past decisions and lack of innovative solutions. Another shortcoming of such an approach is that it may lead to selective application of precedents particularly in the absence of systematic classification and transparent use of past records.

5.9.5.2 The Commission is of the view that Departments should build an electronic database of decisions that are likely to be used as precedents. Thereafter such database should be periodically reviewed and where necessary, changes in rules introduced in order to codify them. There may also be precedents that may be the result of wrong or arbitrary decision making which the Department would prefer not to rely on for the future. In such cases, the Department would have to appropriately change its policy/guidelines and if required even the rules to ensure that these precedents are not wrongly used.

5.9.6 Shift from a reactive to a proactive approach

5.9.6.1 The Manual of Office Procedure, at present, places overwhelming emphasis on action to be taken on receipt of papers/files rather than on taking the initiative to lay down the objectives of the Department and taking decisive actions to achieve them. This reactive approach has often led to inertia even in the face of emerging problems, which are therefore not addressed in time. The emphasis should therefore shift to speedy decision making and problem solving.

5.9.7 Recommendations

- a. Each Department should lay down a detailed scheme of delegation at all levels so that the decision making takes place at the most appropriate level. It

should be laid down in the Manual of Office Procedure that every Ministry should prescribe a detailed scheme of delegation for its officers. This delegation should be arrived at on the basis of an analysis of the activities and functions of the Ministry/Department and the type of decisions that these entail which should be dovetailed with the decision making units identified in that Department.

- b. The scheme of delegation should be updated periodically and should also be 'audited' at regular intervals. The audit should ensure that the delegated authority is actually exercised by the delegatee. The scheme of delegation should be placed in the public domain.
- c. The number of levels through which a file passes for a decision should not exceed three.
 - i. In cases where the Minister's approval is required, the file should be initiated by the Deputy Secretary/Director concerned and should be moved through the Joint Secretary (or Additional Secretary/Special Secretary) and the Secretary (or Special Secretary) to the Minister.
 - ii. Cases requiring approval of the Secretary should go through just two levels (e.g. either US and Director, US and JS or Director and JS).
 - iii. Cases requiring approval of the JS/Director/DS should come through just one level. The exact combination of levels should be spelt out in the scheme of delegation for each Ministry/Department whereas the number of levels as suggested above should be prescribed in the Manual of Office Procedure.
 - iv. The Department dealing with administrative reforms in the Union Government should be entrusted with the task of ensuring compliance with this stipulation.
- d. For addressing cross cutting issues, the Secretary of the concerned Department should have the flexibility to create inter-disciplinary teams.
- e. The Manual of Office Procedure should be recast based on the principles stated in paragraph 5.9.

- f. The Departments should build an electronic database of decisions that are likely to be used as precedents. Thereafter such database should be periodically reviewed and where necessary, changes in rules introduced in order to codify them. There may also be precedents that may be the result of wrong or arbitrary decision making which the Department would prefer not to rely on for the future. In such cases the Department would have to appropriately change its policy/guidelines and if required even the rules to ensure that these precedents are not wrongly used.

5.10 Coordination Mechanisms

5.10.1 Cabinet Committee and GoMs

5.10.1.1 There is need for ensuring extensive horizontal coordination where policies are spread over a number of departments and where policy delivery mechanisms are distributed in different parts of the government. This issue of coordination among departments in the Government of India was also examined by the First Administrative Reforms Commission (First ARC). It observed as follows:

‘One of the major tasks of the Cabinet is to ensure coordination of all important policies, programmes and decisions of Government. There exist at present nine Standing Committees of the Cabinet as follows:

Internal Affairs;

Foreign Affairs;

Defence;

Prices, Production and Exports;

Family Planning;

Food and Agriculture;

Tourism and Transport;

Parliamentary Affairs; and

Appointments’

5.10.1.2 The First ARC went on to add – ‘Some of the Committees have not met regularly. Several important subjects are not covered by these Committees. Further, they can take up a matter only if it is referred to them by the Minister concerned or by the Cabinet. It is necessary to remove these basic deficiencies in their working. They should cover between them all important areas of Government activity. It is also essential that each Cabinet Committee meets regularly so that sustained attention is given to complex problems and the process of implementation of important policies and programmes is kept under constant review.’

5.10.1.3 The First ARC recommended the creation of 11 Standing Committees of the Cabinet for the following items:

- (1) Defence;
- (2) Foreign Affairs;
- (3) Economic Affairs;
- (4) Parliamentary Affairs and Public Relations;
- (5) Food and Rural Development;
- (6) Transport, Tourism and Communications;
- (7) Social Services (including Social Welfare and Family Planning);
- (8) Commerce, Industry and Science;
- (9) Internal Affairs (including Centre-State Relationships);
- (10) Administration; and
- (11) Appointments.

5.10.1.4 The First ARC also observed that each of the Cabinet Committees mentioned above should be supported by a Secretaries’ Committee in order to ensure that time and energy are not wasted in dealing with issues which can be settled at the Secretaries’ level. It further suggested that as the Cabinet Secretary carries a heavy burden which is likely, under our recommendations, to become even heavier in the future he should therefore, be

relieved of a part of his responsibility for presiding over and looking after the work of these Committees, by some of his senior colleagues. It also added that apart from the Standing Committees, there may be occasions which call for the setting up of ad hoc Committees of Ministers. These should, as suggested by the Study Team, merely inquire into particular issues and report back to the Cabinet or its appropriate Standing Committee as considered necessary.

5.10.1.5 At present, the following Cabinet Committees have been constituted:

- a. Appointments Committee of the Cabinet
- b. Cabinet Committee on Accommodation
- c. Cabinet Committee on Economic Affairs
- d. Cabinet Committee on Management of Natural Calamities
- e. Cabinet Committee on Parliamentary Affairs
- f. Cabinet Committee on Political Affairs
- g. Cabinet Committee on Prices
- h. Cabinet Committee on Security
- i. Cabinet Committee on World Trade Organisation Matters

5.10.1.6 In addition, several Groups of Ministers (GOMs) have been constituted to look into different issues/subjects. Some of these GOMs have been empowered to take decisions on behalf of the Cabinet whereas the others make recommendations to the Cabinet. The Commission understands that the constitution of a large number of GoMs has resulted in many GoMs not being able to meet regularly to complete their work thus leading to significant delays on many major issues.

5.10.1.7 The Commission feels that more selective use of the institution of Group of Ministers would perhaps lead to more effective coordination particularly if they are empowered to arrive at a decision on behalf of the Cabinet with time limits that are prescribed for completing the work entrusted to them.

5.10.2 Coordination Role of the Cabinet Secretariat

5.10.2.1 The Cabinet Secretariat plays an important role in coordination of inter-Ministerial matters. Whenever inter-Ministerial coordination is required, the concerned Ministries seek the assistance of the Cabinet Secretariat. The inter-Ministerial problems are dealt with in the meetings of the Committees of Secretaries (COS). These Committees are constituted for discussing specific matters and proposals emanating from various Secretaries to the Government and meetings are held under the chairmanship of the Cabinet Secretary. The Secretary (Coordination) plays an important role in assisting the Cabinet Secretary in inter-Ministerial coordination.

5.10.2.2 The discussions of the COS takes place on the basis of a paper formulated by the principal Department concerned and the Department with a different point of view, if any, providing a supplementary note. The decisions or recommendations of the COS are unanimous. The Cabinet Secretariat is seen as a useful mechanism by the Departments for promoting inter-Ministerial coordination since the Cabinet Secretary is also the head of the civil services. The Secretaries therefore consider it necessary to keep the Cabinet Secretary informed of significant developments whenever necessary. The Transaction of Business Rules also require them to keep the Cabinet Secretary informed of developments, from time to time, specially if there are any departures from these rules.²¹

5.10.3 Other Coordination Mechanisms

5.10.3.1 In addition to the high level coordination mechanisms mentioned above, coordination between Government Departments is also achieved through various other formal and informal mechanisms. The formal mechanisms may include inter-Ministerial committees and working groups that are set up from time to time to deliberate on specific issues or to oversee the implementation of different government schemes and programmes. Coordination is also achieved through inter-Ministerial consultations which could occur through movement of files or through meetings between the representatives of the concerned Ministries.

5.10.3.2 The Commission recognizes the importance of coordination amongst various Ministries/Departments, more so because of new and emerging challenges in many sectors which require a coordinated national response. The Commission has already recommended re-grouping of government functions into inter-related categories to be assigned to a Coordinating Minister to improve such coordination. Besides, while examining the internal

²¹Extracted from the Website of Cabinet Secretariat.

structures of the Ministries, the Commission has suggested a flexible, inter-disciplinary team based approach which would inherently serve to improve coordination.

5.10.3.3 The need for inter-Ministerial coordination at the apex level would be reduced as a result of these measures. Nonetheless, there will always be issues and problems for which high level inter-Ministerial coordination would be required. In such cases, the extent and quality of coordination would depend on the skill of the coordinator and the spirit with which the members participate. To achieve the necessary coordination, a Secretary should function as a member of a team rather than as a spokesperson of his/her Department's stated position. Furthermore, effective functioning of the existing mechanisms comprising the Cabinet Secretariat, Committee of Secretaries, Group of Ministers and Cabinet Committees should, therefore, be adequate to meet the requirement of inter-Ministerial coordination.

5.10.3.4 An area where the Commission feels the need for having a formal coordination mechanism relates to issues which may arise between the States and the Union Government particularly in relation to sectors like power, transport, water etc. While, at present, such issues are often taken up for resolution by the Government of India through discussions between the concerned Ministry/Ministries and the States, there may be instances where resolution of such issues gets delayed in the absence of an inter-Ministerial mechanism. It should be possible to resolve such stalemates by the States bringing the matter before the Cabinet Secretary for consideration by the Committee of Secretaries based on which the Union Cabinet could take a final view. Secretary (Coordination) could play a key role in facilitating this coordination.

5.11 Reducing Paperwork in Government Offices

5.11.1 In the Commission's Report on e-Governance, the Commission has recommended as under:

"Business Process Re-engineering

- a. For every function a government organization performs and every service or information it is required to provide, there should be a step-by-step analysis of each process to ensure its rationality and simplicity.
- b. Such analysis should incorporate the viewpoints of all stakeholders, while maintaining the citizen-centricity of the exercise.

- c. After identifying steps which are redundant or which require simplification, and which are adaptable to e-Governance, the provisions of the law, rules, regulations, instructions, codes, manual etc. which form their basis should also be identified.
- d. Following this exercise, governmental forms, processes and structures should be re-designed to make them adaptable to e-Governance, backed by procedural, institutional and legal changes."

5.11.2 In addition, the Commission recommended:

"Each government organization should prepare a time-bound plan for providing of transactional information through their websites. To begin with, this could be done by updating the websites at regular intervals, while at the same time, re-engineering the back-end processes and putting them on computer networks. Ultimately, all the back-end processes should be computerized."

Moreover, the Commission has recommended that "A clear road map with a set of milestones should be outlined by Government of India with the ultimate objective of transforming the citizen-government interaction at all levels to the e-Governance made by 2020. This may be enshrined in a legal framework keeping in consideration the mammoth dimension of the task, the levels of required coordination between the Union and State Governments and the diverse field situations in which it should be implemented."

5.11.3 The recommendations outlined in the Commission's Report on e-Governance, as briefly summarized above, are reiterated. The Manual of Office Procedure would also have to be updated from time to time during the transition from manual paper based transaction to electronic processes and this task should be entrusted to the Department of Administrative Reforms and Public Grievances.

5.12 Recommendations

- a. There is need to ensure that the existing coordination mechanisms like the Group of Ministers, and Committee of Secretaries function effectively and help in early resolution of issues as stated in para 5.10 Selective, but effective use of GOMs with clear mandate and prescribed time limits, would be helpful.

- b. Unresolved issues concerning States which require inter-Ministerial coordination in Government of India, should be placed before the Committee of Secretaries (COSs) and then to the Union Cabinet for resolution.

CREATING AN EFFECTIVE REGULATORY FRAMEWORK

6

6.1 Introduction

6.1.1 One of the terms of reference of the Commission is:

“1.4.1 To suggest a framework for possible areas where there is need for governmental regulation (regulators) and those where it should be reduced”

While examining issues related to citizen centric administration, the Commission classified the functions of Government as: self preservation, supervision and resolution of conflicts, social and economic development, and regulation and provision of goods and services. The functions of government are laid down in the Constitution of a country. The Constitution of India also lays down the role and functions of the three levels of government – Union, State and Local. These are spelt out in the Part III on Fundamental Rights, Part IV on the Directive Principles of State Policy, Parts IX and IX A on local bodies, etc. For the sake of present analysis the functions of a government could be broadly categorized as follows:

- a. Regulatory functions
- b. Service providing functions
- c. Developmental functions

6.2 Regulatory Functions

6.2.1 According to Thomas Jefferson, government is created to secure the inalienable rights of all citizens - i.e., the right to life, liberty and the pursuit of happiness. If everyone were to be allowed to pursue complete freedom for doing whatever he wants and to pursue his happiness, then it may lead to a situation where rights and freedom of other persons are affected. This necessitates the regulatory role of the government. The State enacts laws which impose restrictions on the activities of citizens, in the larger interest of society. In order to enforce these laws, the State creates a large number of organizations which are charged with the implementation of these laws. However, attaining ‘optimum regulation’ is a challenging task, as a balance has to be achieved between individual’s freedom and society’s interest.

6.2.2 Thus, regulation has always been a key function of the State. The State creates regulatory frameworks which prescribe the limits within which individuals as well as organizations can function. The Constitution and the vast set of laws in any country stipulate the limits of

permissible conduct. However, mere stipulation of such limits is not enough unless these are enforced through an appropriate mechanism.

6.2.3 In India, as stated earlier, the regulatory role of government stems from the provisions of the Constitution which empower the Union and State Legislatures to make laws on various subjects. Besides, Article 19 of the Constitution empowers the State to impose reasonable restrictions on the exercise of various Rights-conferred by Article 19-in the interest of public order, sovereignty and integrity of India, protecting the interest of the general public, or in the interest of decency, morality etc. Consequently, there is a plethora of laws and rules which seek to regulate the activities of individuals and groups of individuals. These are in the form of municipal laws and byelaws, laws governing vehicular traffic, laws governing possession of weapons, laws to prevent public nuisance, taxation laws which impose taxes and stipulate different requirements to be met by the assessee, laws relating to immigration etc. The Constitution as well as the laws enacted by Parliament have established the institutions and mechanisms to enforce the laws and rules. Article 53(1) of the Constitution regulates the exercise of the executive powers of the Union. Further, Article 53(3) authorizes Parliament to confer by law such functions to 'authorities'.

6.2.4 International agencies have rated India as a relatively over-regulated State that casts a heavy burden on business and citizens, and thereby diminishes India's growth rate, increases corruption, and also makes it a less attractive destination for foreign investment. The Global Competitiveness Report 2003-2004 of World Economic Forum (World Economic Forum, 2004, p.263), ranked India 67th out of 102 countries on the burden of regulations, and 50th on business costs of corruption. India scored 2.8 on Transparency International's 2004 freedom from corruption index (Transparency International, 2004, Table 1) (Finland, New Zealand, Denmark, Iceland, Singapore and Switzerland all scored above 9.0).²²

6.2.5 Some horrific statistics have been reported on how Indian regulations choke initiative. According to the Global Competitiveness Report 2000, the median number of permits needed to start a firm was no more than 3 in Singapore, UK, Canada, Japan, etc., but as high as 10 in India²³ (IMD, 2000, Table 8.35). Even in China, only 6 permits were required. Even worse were the figures for the median number of days needed to start a firm: 7 in the UK, 30 in China, and 90 in India (IMD, 2000, Table 8.356).

6.2.6 The Commission in its Twelfth Report on 'Citizen Centric Administration' emphasized the following aspects of regulation:

- a. **Regulation only where necessary:** It has been argued that India is an over-regulated country, but many of the regulations are not implemented in right earnest. The reasons include – (i) the sheer number of such regulations; (ii) outdated regulations that continue to remain on the

statute book; (iii) the tendency to over-legislate - as a result the legislation becomes an end itself; and (iv) the complex procedural formalities stipulated in these regulations. It is, therefore, necessary to have a detailed scrutiny of all laws and regulations – Union, State and Local – followed by repeal of unnecessary regulations, updation of outdated ones and simplification of the procedures so that compliance becomes easy.

- b. **Regulation to be effective:** One of the consequences of a large number of regulations has been the poor standards of their enforcement. Social legislations are classic examples of this. Slack enforcement leads to corrupt and unethical practices and the objectives of the legislations are also not met. Another reason for the poor enforcement of some regulations is the lack of attention to building capacity in the agencies entrusted with enforcement of such regulations. For example, the capacity and expertise of the Motor Vehicles Department has not kept pace with the explosive growth of vehicles on the road. The Commission is of the view that in order to ensure that the regulatory measures do not degenerate into corrupt practices it is necessary to have an effective supervision of the agencies which carry out these regulatory functions. This supervision should primarily be carried out internally by the supervisory officers and should be supplemented by a periodic assessment by an independent agency.
- c. **Self regulation is the best form of regulation:** In the field of taxation, there has been a shift from departmental assessment to greater reliance on self assessment. This holds good for Union taxes such as Income tax, State taxes like the VAT and local taxes like the property taxes. This principle of voluntary compliance can be extended to other fields like building bye-laws, public health regulations etc. To start with, this principle can straightaway be applied to cases where permission/licence is required to be renewed periodically.
- d. **Regulatory procedure to be simple, transparent and citizen friendly:** The Commission in its Report on 'Ethics in Governance' has dealt with a series of systemic reforms so as to minimize the scope for corruption. These include simplifying transactions, using IT, promoting transparency, reducing discretion, effective supervision etc.
- e. **Involving citizens' groups, professional organizations in the regulation activities.** The burden of the enforcement machinery can be shared by associating citizens' groups as well as professional organizations to certify compliance and report violations of the regulations to the concerned authorities. Recently, in Delhi the procedure for grant of building permissions has been simplified and registered architects have been authorized to certify the building plans of houses. This has helped in

²²REVAMPING GOVERNMENT OF INDIA'S PUBLIC ADMINISTRATION FOR GOVERNANCE EXCELLENCE by Prof. Pradip N. Khandwalla (Commissioned by the Administrative Reforms Commission)

²³Ibid

reducing the work of the civic agencies and reduced corruption as well. This principle could be also extended to other spheres of activities.

6.3 Statutory Independent Regulatory Agencies

6.3.1 Regulation by government through its own Departments or Agencies directly under its control has always existed. The last century has seen the emergence of a special category of regulatory systems – the Independent Statutory Regulating Agencies. These agencies differ from the conventional regulating system as they are separated from the executive wing of the government and enjoy a certain degree of autonomy.

6.3.2 The concept of independent regulations took birth in the USA. A large number of Federal Agencies were set up by Acts of Congress, the basic premise of the establishment of these agencies being that a market based economy needs to be regulated in order to ensure a level playing field to all and also to safeguard the larger public and national interest. Other factors, which favoured the creation of independent regulations were – increasing complexities and the advancement of technologies required handling of issues by experts; public interest is best served by insulating decision making in certain issues, from political interference. In India, with the initiation of the process of economic liberalization in the early 90s, government withdrew from many activities which, hitherto were monopolized by it. The entry of the corporate sector necessitated certain measures to boost the investor competence and to safeguard public interest. One such measure was setting up of independent regulators. In addition, the traditional departmental structure of government was not best suited to play the dual role of a policy making as well as regulating the sector concerned, more so, because in several sectors there were public sector units competing with corporate bodies. The aforesaid circumstances led to the setting up of several independent statutory regulating agencies in sectors such as Power, Telecom, Financial services, Insurance etc.

6.3.3 There is one more category of regulators – Self Regulatory Authorities. These Authorities are created under different laws but they are self regulatory in nature. The functions of Self-Regulatory Bodies may include: (i) issues of professional education: development of curriculum, setting up of teaching standards, institutional infrastructure, recognition of degrees etc. and (ii) matters connected with licensing, and ethical conduct of the practitioners. There are organizations like the Institute of Engineers which was formed purely by voluntary action by the respective members of the profession. They do not have any statutory background. The Commission in its Ninth Report on Social Capital has examined issues concerning the Self Regulatory Authorities and made recommendations.

6.3.4 A comparative analysis of the legal framework of independent Self Regulatory Authorities in India is given in Table 6.1.

Table No. 6.1 : Comparison of Functions and Powers of Different Regulatory Bodies					
SL.No.	Criteria/ Organisation	SEBI (SEBI Act, 1992)	TRAI	IRDA	CERC
	Board	Chairman; two Members nominated by Government of India; one Member from RBI; five other Members (at least three whole-time); Section 4(1)	Chairman; not more than two whole-time and not more than two part-time Members (Section 3)	Chairperson; not more than five whole-time members; not more than four part-time members. (Section 4)	Chairperson and three other Members {Section 3(4)}
	Appointment of Board Members	By the Central Government {Section 4(1)}	By the Central Government (Section 3).	By the Central Government (Section 4)	By the Central Government on the recommendation of a Selection Committee, except in case of Judges of the Supreme Court or Chief Justice of the High Courts (Sections 3, 4 and 5)
	Removal of Board Members	By the Central Government {Sections 5(2) and 6}	By the Central Government. Removal in case of acquisition of financial interest or abuse of power on report after enquiry conducted by the Supreme Court on reference received from the Central Government. (Section 7)	By the Central Government (Section 6)	By the Central Government. Removal in case of acquisition of financial interest or abuse of power on report after enquiry conducted by the Supreme Court on reference received from the Central Government (Section 7)

Table No. 6.1 : Comparison of Functions and Powers of Different Regulatory Bodies					
Sl.No.	Criteria/ Organisation	SEBI (SEBI Act, 1992)	TRAI	IRDA	CERC
	Tenure of Board Members	3 years or 65 years of age whichever is earlier (Rules)	3 years or 65 years of age whichever is earlier (Section 5)	Chairperson: 5 years or attainment of 65 years of age; Whole-time members: 5 years or attainment of 62 years of age; Part-time members: 5 years (Section 5)	Chairperson: 5 years or attainment of 65 years of age; Other Members: 5 years or attainment of 62 years of age (Section 6)
	Functions	Regulating Stock Exchanges; registering and regulating intermediaries, FIIs, depositories etc.	Recommending terms and conditions of license to service providers etc. (Section 11)	Regulate, promote and ensure orderly growth of the insurance business; and re-insurance business; adjudication of disputes between insurers and intermediaries or insurance intermediaries (Section 14)	Regulate the tariff of generating companies owned or controlled by the Central Government; in case of other companies also if they generate and sale in more than one state (Section 13)
	Fees etc.	Levying fees and other charges (Section 11)	Levying fees and other charges (Section 11)	Levying fees and other charges (Section 14)	Regulation of rates

Table No. 6.1 : Comparison of Functions and Powers of Different Regulatory Bodies					
Sl.No.	Criteria/ Organisation	SEBI (SEBI Act, 1992)	TRAI	IRDA	CERC
	Powers	Conducting inquiries and investigations; suspending activities; attaching bank accounts (Section 11); issuing directions (Section 11B); levying various penalties and powers of adjudication (Section 15)	Conducting inquiries and investigations (Section 12)	Conducting inquiries and investigations (Section 14)	Powers of a civil court
	A p p e l l a t e Authority	SAT (Section 15K)	Telecom Disputes Settlement and Appellate Tribunal (Section 14)	----	High Court (Section 16)
	Source of Finance	Grants provided by the Central Government after due appropriation made by Parliament by law in this behalf (Section 13); credited to SEBI General Fund along with fees and charges; all expenses to be met out of this Fund (Section 14)	Grants provided by the Central Government after due appropriation made by Parliament by law in this behalf (Section 21); credited to TRAI General Fund along with fees and charges; all expenses to be met out of this Fund (Section 22)	Grants provided by the Central Government after due appropriation made by Parliament by law in this behalf (Section 15); credited to IRDA Fund along with fees and charges; all expenses to be met out of this Fund (Section 22)	CFI

Table No. 6.1 : Comparison of Functions and Powers of Different Regulatory Bodies					
Sl.No.	Criteria/ Organisation	SEBI (SEBI Act, 1992)	TRAI	IRDA	CERC
	Interface with Government of India	(1) Power to issue Directions: Central Government may give directions in writing on questions of policy which the Board is bound to follow. The decision of the Central Government whether a question is one of policy or not is final. (Section 16). (2) Power to Supersede: On account of inability to discharge functions; failure to comply with directions or in public interest; Central Government may supersede the Board by way of Notification for six months. However, it has to present a full report on such actions before the Parliament (Section 17). (3) Board to furnish returns and an Annual Report to the Central Government, to be laid before each House of Parliament (Section 18).	(1) Power to issue Directions: Central Government may give directions in writing in the interest of the sovereignty and integrity of India, the security of the State, friendly relations with foreign States, public order, decency or morality and on questions of policy which the Authority is bound to follow. The decision of the Central Government whether a question is one of policy or not is final. (Section 25). (3) Authority to furnish returns and an Annual Report to the Central Government, to be laid before each House of Parliament (Section 24). (2) Powers to make Rules lie with the Central Government. Only Regulations could be made by the Authority (Sections 35, 36)	(1) Power to issue Directions: Central Government may give directions in writing on questions of policy other than those relating to technical and administrative matters which the Authority is bound to follow. The decision of the Central Government whether a question is one of policy or not is final (Section 18). (2) Power to Supersede: On account of inability to discharge functions; failure to comply with directions or in public interest; Central Government may supersede the Authority by way of Notification for six months. However, it has to present a full report on such actions before the Parliament (Section 19). (3) Authority to furnish returns and an Annual Report to the Central Government, to be laid before each House of Parliament (Section 20).	(1) Power to issue Directions: Central Government may give directions in writing on questions of policy involving public interest which the Commission is bound to follow. The decision of the Central Government whether a question is one of policy involving public interest or not is final (Section 38). (2) Commission to furnish an Annual Report to the Central Government, to be laid before each House of Parliament (Section 35).

6.4 Issues

6.4.1 Defining the term ‘Independent Regulators’

6.4.1.1 ‘The creation, design and consequences of independent regulatory agencies represent a classic example of delegation to non-majoritarian institutions. They are created by legislation, hence elected officials are their principals. They are organizationally separate from governments and headed by unelected officials. They are given powers over regulation, but are also subject to controls by elected politicians and judges.’ {Mark Thatcher. West European Politics, Vol.25 1 (January 2002),pp 125-147}. The role of these independent regulators include not only fostering competition in the sector, but also establishing standards and codes so as to maximize benefits for consumers and for the economy as a whole.

6.4.1.2 In the post-economic liberalization period, a large number of independent regulatory mechanisms have been set up in India with the primary goal of providing a level playing field for private industry, foster competition and above all to protect the interests of consumers. Recent examples of such mechanisms include the Telecom Regulatory Authority of India (TRAI), followed by the various Electricity Regulatory Commissions (ERCs) and the Insurance Regulatory and Development Authority (IRDA). However, even prior to the setting up of these Regulators, India has had the experience of regulation of certain sectors by bodies which are at an arm’s-length from Government. The most important of these is India’s Central Bank i.e. the Reserve Bank of India. But there were other regulatory authorities such as the Central and State Pollution Control Boards, the Monopolies and Restrictive Trade Practices Commission (MRTPC), to be now replaced by the Competition Commission etc.

6.4.1.3 Another way of categorizing the Regulators would be to distinguish between general regulators such as the Competition Commission and the subject specific Regulators which include TRAI, IRDA etc.

6.4.2 Proliferation of Regulatory Authorities

6.4.2.1 A large number of Regulators have been set up in recent times by the government to whom certain functions previously performed by the government have been transferred. Creation of independent Regulators in respect of certain sectors/industries has helped to promote transparency, a long-term perspective in decision making, insulation from day-to-day political interference, improvement in service standards with substantial benefits to consumers and fostering of competition.

6.4.2.2 At the same time, there is also an increasing perception that a number of regulators are

being set up on an ad-hoc basis by different Ministries, sometimes with overlapping jurisdictions leading to lack of coordination and issues of turf. The fact that different regulators have been set up with varying terms of appointment, tenure etc. is also a reflection of this. Such proliferation of Regulators is not unique to India and has also been seen in other countries. In the United Kingdom (UK) for example, this issue was examined by the 'Better Regulation Task Force' which in its report of October 2003 recommended the following:

- (i) Before establishing a new independent regulator, a Department should carry out a landscape review of the delivery of the policy objective. This should explore whether another regulator could take on the new function, or whether a number of regulators could be subsumed within the new function.
- (ii) Departments should carry out regular end-to-end reviews of their policy delivery areas to assess which bodies continue to deliver their policy objectives effectively and whether there are some bodies which are no longer necessary.

6.4.2.3 The Commission is of the view that a similar exercise should be made mandatory for all Ministries/Departments before they create any new regulator.

6.4.3. Appointment and Removal of the Members of the Authority

6.4.3.1 The Commission has examined some of the legal provisions relating to appointment, tenure and removal of the Chairmen and Board Members of various regulatory authorities. These provisions are also shown in Table No. 6.1. The number of Board members vary from nine in the case of SEBI, to four in the case of CERC, and include some part-time members. Appointments are made in the case of the Boards of SEBI, TRAI and IRDA, by the Union Government and to the Board of CERC by the Union Government on the recommendation of the Selection Committee (except in the case of Judges of the Supreme Court or Chief Justices of the High Courts).

6.4.3.2 The tenure varies from three years or 65 years of age whichever is earlier in the case of SEBI and TRAI; to five years or 65 years of age whichever is earlier for the Chairpersons of IRDA and CERC.

6.4.3.3 The power for removal of Board Member(s) is vested with the Union Government in the case of SEBI and IRDA subject to fulfilment of certain conditions. In the case of TRAI and CERC, such removal can only be done in case of acquisition of financial interests or abuse of power, after enquiry conducted by the Supreme Court on a reference received from

the Union Government.

6.4.3.4 The Commission feels that there is need for greater uniformity in the terms of appointment, tenure and removal of various Regulatory authorities considering these have been set up with similar objectives and functions they should also enjoy the same degree of autonomy. The Commission further feels that the initial process of appointment of the Chairmen and Board Members should be transparent, credible and fair. The Commission would, therefore, suggest that the appointment of the Chairmen and Board Members for all such regulatory authorities should be done by the Union/State Governments from a panel of names based on recommendations of a Selection Committee. The composition of the Selection Committee should be defined in the respective Acts and may broadly follow the pattern laid down in the Electricity Regulatory Commissions Act, 1998.

6.4.3.5 Similarly, the tenure of the Chairmen and Board Members could also be made uniform preferably three years or 65 years of age whichever is earlier.

6.4.3.6 As regards removal of the Chairmen and Board Members, legal provisions may be made uniform while at the same time ensuring sufficient safeguards against arbitrary removal. This could be achieved by allowing removal by the Union Government only on fulfilment of certain conditions as laid down in Section 6 of the IRDA Act with the additional safeguard that a removal for abuse of power shall be preceded by an inquiry and consultation with UPSC.

6.4.4 Interface with Government

6.4.4.1 Since Regulators have been hived off from Government departments for the purpose of carrying out government policies, a close link between the two is essential while respecting the autonomy and independence of the Regulators. Some aspects of this interface are spelt out in the statute creating the regulator while others have evolved out of conventions and practices of government departments. These include:-

- i. Appointment and approval of members
- ii. Provisioning of funds
- iii. Facilitation of Parliamentary interface
- iv. Capacity building including interaction with regulators from other countries
- v. Regulation of public sector undertakings
- vi. Miscellaneous administrative matters

- vii. Issue of policy directives
- viii. Personnel policies
- ix. Audit and vigilance
- x. Coordination with other departments and other regulators
- xi. Powers to make rules
- xii. Supersession
- xiii. Periodical reports to government

Box No. 6.1 : What Does a Management Statement Set Out?

- The regulator’s overall aim(s), objectives and targets in support of the sponsor/parent Department’s wider strategic aims and current Public Service Agreement;
- The rules and guidelines relevant to the exercise of the regulator’s functions, duties and powers;
- The conditions under which any public funds are paid to the regulator; and
- How the regulator is to be held to account for its performance?

Source: Better Regulation Task Force – Independent Regulators, October 2003.

6.4.4.2 While interface with the government on the various aspects mentioned above is critical to the effective functioning of the regulator, it is also essential to evolve healthy conventions so that the autonomous functioning of regulator is not diluted. The Commission has examined the practices in this regard in other countries. In the UK, the treasury department has prepared a model management statement for the use of regulators and the government departments (Box No.6.1). The Commission is of the view that in addition to the statutory framework which underpins the interface between the government and the regulator, each Ministry/Department should evolve a ‘Management Statement’ outlining the objectives and roles of each regulator and the guidelines governing their interaction with the government. This would guide both the government department and the regulator.

6.4.5 Accountability

6.4.5.1 A Regulator can retain its legitimacy and credibility only if it is accountable for how it uses the powers that have been delegated to it by the legislature. Often, it has been perceived that there is trade off between independence and accountability whereas the two are mutually reinforcing. Unless there is accountability, independence will not be justified and the greater the level of autonomy, the more critical it is to have credible accountability mechanisms.

6.4.5.2 Accountability can best be ensured by adhering to the following broad principles:²⁴

- The independent regulator should be backed by a statute.

- There should be a clear well-defined mandate for the Regulator.
- Relationship with the legislature, executive and the judiciary should be clearly defined.
- The procedure for appointment and removal of Regulators should be clearly laid down in law.
- Decision making should be transparent.
- Mechanisms for superceding such agencies should also be defined in law.

6.4.5.3 The Commission has examined the accountability mechanisms for Regulator in other countries. In the UK, the following mechanisms are in place:²⁵

- All regulators have an accounting officer;
- They have to produce annual accounts – which everyone can read;
- They can be audited by the National Audit Office or the Audit Commission;
- They can be subject to value for money examinations by the National Audit Office; or
- They can be called to appear before the relevant House of Commons or Lords select committee to answer for their actions.

6.4.5.4 Another aspect of accountability is accountability of the Regulator to stakeholders and citizens. In the UK, the following ‘good practices’ are in use to promote answerability to the stakeholders:-²⁶

- Corporate plans;
- Open meetings;
- An accessible and affordable appeals mechanism;
- Open consultation exercises and then open feedback;
- Publication of Board agendas, papers and minutes (as appropriate);
- Regulatory impact assessments;

²⁴Adopted from – Should Finance Sector Regulators Be Independent?, by Marc Quintyn & Michael W. Taylor (International Monetary Fund, 2004).
²⁵Report of the Better Regulation Task Force – Independent Regulators, October 2003.
²⁶Report of the Better Regulation Task Force – Independent Regulators, October 2003.

- Statements of proposed action;
- Comprehensive – but easy to use – websites; and
- Discussion for a on websites

6.4.5.5 In India the regulatory bodies in general have the following features that are relevant to their accountability:-

- i) They have been constituted on the basis of statute which also lays down terms of appointment and removal of Board Members.
- ii) Their decisions can be appealed against before a specified appellant authority in most cases. Naturally, they are also subject to the writ jurisdictions of High Courts and the Supreme Court.
- iii) The accounts of regulator are audited by the Comptroller and Auditor General.
- iv) They are legally bound to prepare an annual report and submit to the Government who in turn lays it before each House of Parliament.
- v) The respective statutes have mandated that regulators shall ensure transparency while exercising their powers and discharging their functions.
- vi) The Chairmen, Members and officers of regulators are deemed to be public servants within the meaning of Section 21 of the Indian Penal Code (IPC).

6.4.5.6 In practice, Parliamentary oversight of the Regulators in India has been through occasional appearance before the Parliamentary Committees and the Departmental Consultative Committees combined with laying of annual reports and other papers before Parliament. The Commission understands that Government is considering a proposal to bring Regulators of various sectors under Parliamentary scrutiny through an exclusive Parliamentary Standing Committee for Regulators. The Commission feels that ensuring accountability of Regulators to Parliament is desirable. However, having an exclusive Parliamentary Committee for Regulators may not be feasible given the widely varying mandate and area of operations of the regulators. Since the Regulators have to work in close conjunction with the concerned Ministries, appearance before the Departmentally Related Standing Committees of the Parliament will facilitate effective legislative oversight. However, it needs to be ensured that Parliamentary Committees do not question the regulators' day-to-day functioning, and instead

focus on their major decisions.

6.4.5.7 The Commission is also of the view that there should be independent evaluation of the work of these Regulators, based on pre-specified parameters. Such evaluation should be done by a panel of outside experts in a periodic manner. In fact, the High Level Committee on Financial Sector Reforms set up by the Planning Commission in 2007 has recommended the following with regard to independent evaluation of regulators in the financial sector in its Report:²⁷

Once in five years, a body of reputed outside experts (including possibly regulators elsewhere) would be constituted to propose guidelines for the evaluation of the regulator for the next five years, given the legislative mandate.

Based on the report of experts, the government, in consultation with the Parliamentary Committee and the regulator, would finalize the specific principles (the remit) the regulator would be held accountable for, including any parameters for annual evaluation.

The regulator would submit an annual report to parliament (this does happen currently for many regulators). This report would include the progress on pre-agreed evaluation parameters and would be discussed in the parliamentary Committee.

The Parliamentary Committee would be guided by the remit in its discussions with regulator.

The annual report, the statement of the regulator to the Committee, and a transcript of the Committee discussions with the regulator should be made widely accessible to the public.

The Commission is of the view that a periodical evaluation of all regulators should be carried out on the lines mentioned above.

6.4.6 Uniformity in Structure and Powers

6.4.6.1 As indicated earlier, there are significant variations in the size and composition of the governing boards, manner of appointment, removal of chairmen/members, tenure, provision of appeals, sources of finance, interface with the government etc. The Commission is of the view that at least in respect of certain provisions like manner of appointment, tenure, interface with the government etc. the statutory provisions should be, by and large, uniform for all regulators.

²⁷ 'A Hundred Small Steps'; Report of the Committee on Financial Sector Reforms; page 133

6.4.6.2 A suggestion has been made that given the growing importance of regulation in several critical sectors of economy, governance relating to regulatory institutions has assumed an important role and in order to focus on regulatory reform and governance, a separate Department of Regulatory Affairs may be created. The Commission is of the view that regulation per se is not a new activity for government and various government departments have been carrying out regulations in some form or the other. Regulation in different sectors may require sector specific approach and, above all, a deep insight as well as close cooperation between the regulator and the concerned government ministries. The creation of a separate Department of Regulatory Affairs would not help in ensuring good quality regulation because a generic regulatory department - as proposed - would never be able to acquire indepth sectoral expertise. The creation of a separate Department of Regulatory Affairs may help achieve greater uniformity in the structure of regulators, but this goal can also be achieved through other mechanisms. The existing coordination mechanisms such as the Committee of Secretaries could easily ensure that the institutional framework for all Regulators follow by and large a uniform pattern. This task could specifically be assigned to Secretary (Coordination) in the Cabinet Secretariat.

6.4.7 Regulatory Impact Assessment

6.4.7.1 A cost-benefit analysis of any proposal for regulation, whether done directly by a government department or by an independent Regulator, is now the norm in most of the developed countries. Generally, if the costs of a proposal are likely to outweigh the potential benefits, then alternative approaches need to be considered. A similar approach is necessary for evaluating the effectiveness of the existing Regulators and regulatory regime. The Commission is of the view that each statute creating a Regulator should include a provision for an impact assessment periodically by an external agency. Once the objective of creating a level playing field is achieved, the intervention of the Regulators could be reduced in a phased manner ultimately leading either to their abolition or to convergence with other regulators.

6.4.8 Recommendations

- a. Setting up of a Regulator should be preceded by a detailed review to decide whether the policy regime in the concerned sector is such that a Regulator would be better placed to deliver the policy objectives of the department concerned.
- b. In addition to the statutory framework which underpins the interface between the government and the regulator, each Ministry/Department should evolve a 'Management Statement' outlining the objectives and roles of each regulator

and the guidelines governing their interaction with the government. This would guide both the government department and the Regulator.

- c. There is need for greater uniformity in the terms of appointment, tenure and removal of various regulatory authorities considering these have been set up with broadly similar objectives and functions and should enjoy the same degree of autonomy. The initial process of appointment of Chairman and Board Members should be transparent, credible and fair.
- d. The appointment of the Chairman and Board Members for all such regulatory authorities should be done by the Union/State Governments after an initial screening and recommendation of a panel of names by a Selection Committee. The composition of the Selection Committee should be defined in the respective Acts and may broadly follow the pattern laid down in the Electricity Regulatory Commission Act.
- e. The tenure of the Chairmen and Board Members could also be made uniform preferably three years or 65 years of age whichever is earlier.
- f. Legal provisions regarding removal of Board Members should be made uniform while at the same time ensuring sufficient safeguards against arbitrary removal. This could be achieved by allowing removal by the Union Government only on fulfilment of certain conditions as laid down in Section 6 of the IRDA Act with the additional safeguard that a removal for abuse of power shall be preceded by an enquiry and consultation with UPSC.
- g. Parliamentary oversight of regulators should be ensured through the respective Departmentally Related Standing Parliamentary Committees.
- h. A body of reputed outside experts should propose guidelines for periodic evaluation of the independent Regulators. Based on these guidelines, government in consultation with respective Departmentally related Standing Committee of the Parliament should fix the principles on which the Regulators should be evaluated. The annual reports of the regulators should include a report on their performance in the context of these principles. This report should be referred to the respective Parliamentary Committee for discussion.
- i. Each statute creating a Regulator should include a provision for an impact assessment periodically by an external agency. Once the objective of creating

a level playing field is achieved, the intervention of the Regulators could be reduced in a phased manner ultimately leading either to their abolition or to convergence with other Regulators.

- j. There is need to achieve greater uniformity in the structure of Regulators. The existing coordination mechanisms such as the Committee of Secretaries/ Cabinet Committees, assisted by Secretary (Coordination) could easily ensure that the institutional framework for all Regulators follow, by and large, a uniform pattern.

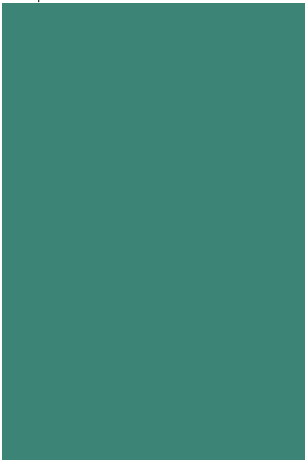
CONCLUSION

The Commission in this Report has examined the organizational structure and functioning of the Government of India with a view to making it more pro-active, responsive, accountable and efficient. The Commission, has, therefore, attempted to redefine the role of various Ministries/Departments in order to meet new and emerging challenges of governance which necessitate a much greater degree of collaboration and coordination among them. Besides, the Commission has analysed the procedures as well as the internal structures of different Ministries and Departments with a view to make the Departments function in a more innovative and effective manner.

The Commission recognizes that structural reforms are necessary but are not sufficient in themselves to improve governance and, therefore, need to be complemented by a series of other reform measures. The Commission has dealt with such measures in its other Reports. It is essential that all these reform initiatives are implemented in a synchronized way to achieve better governance.

Given the complexity and size of the Government of India as an organization, the Commission has refrained from entering into finer details of the restructuring exercise and has confined itself to laying down broad principles. It is expected that individual Ministries/Departments would be able to apply these principles in order to substantially reorganize themselves. Similarly, in case of several rules that govern the functioning of Government of India, the Commission has suggested certain generic changes. It would be for the Ministries to apply these suggestions in order to recast their rules so as to increase their efficacy. The reorganization needs to be driven by the necessary political will at the highest level and monitored regularly by the Cabinet Secretariat.

Some of suggestions made in the Report may look radical but it needs to be recognized that implementing these, even in a phased manner, may be critical to achieving an effective transparent, coherent and efficient governance structure.



SUMMARY OF RECOMMENDATIONS

1. (Para 4.2) Core Principles of Reforming the Structure of Government

- a. The core principles mentioned in paragraph 4.1 should govern the restructuring of Government of India.

2. (Para 5.1.11) Rationalising the Functions of Government

- a. The Government of India should primarily focus on the core functions stated in paragraph 5.1.10.
- b. Government at all levels should be guided by the principle of subsidiarity.
- c. There is need to carry out a detailed analysis of the functions/activities in each Ministry/Department in the light of (a) and (b) above. This should be followed by restructuring which may include decentralization/delegation or hiving off activities.

3. (Para 5.3.11) Rationalising and Reorganising the Ministries and Departments

- a. The concept of a Ministry would have to be redefined. A Ministry would mean a group of departments whose functions and subjects are closely related and is assigned to a First or Coordinating Minister for the purpose of providing overall leadership and coordination. This concept of a Ministry and the Coordinating (or First) Minister may be explicitly laid down in the Allocation of Business Rules. Adequate delegation among the Ministers would have to be laid down in the Transaction of Business Rules. As a consequence of this, rationalization of Secretary level posts wherever required may also need to be carried out.
- b. Individual departments or any combination of these could be headed by the

Coordinating (or First) Minister, other Cabinet Minister(s)/Minister(s) of State.

- c. The structure of the Government of India should be rationalised by grouping together closely related subjects as illustrated in paragraph 5.3.10.5 in order to reduce the number of Ministries to 20-25.

4. (Para 5.4.6) Recasting the Allocation of Business Rules

- a. There is need to recast the Allocation of Business Rules to make them more focussed on the goals and outcomes of each Ministry/Department in order to shift the emphasis from a detailed listing of activities/subjects of each Ministry/Department to a broader perspective.
- b. The Allocation of Business Rules should first provide a Statement of the mission of the department followed by a list of subjects and functions.
- c. There is need to bring greater uniformity in the description of the roles and functions of various Ministries/Departments.
- d. Ministries/Departments should maintain a master list of all laws pertaining to the subjects dealt with in that Ministry/Department instead of mentioning them in the Allocation of Business Rules. The underlying principle should be stated in the Rules that all laws relating to the subjects and functions allocated to a Ministry/Department would fall under its purview.
- e. Instead of naming the individual PSUs and autonomous organizations under each Ministry, the Rules should merely have a generic entry to the effect that all PSUs and Autonomous Organizations whose functioning is directly related to subject(s) of the concerned Ministry would be under its jurisdiction. However, in cases where activities of a PSU or an autonomous organization relates to more than one Ministry/Department, then it may be advisable to list out such PSUs under a particular Ministry/Department.

5. (Para 5.5.2.7) Focus on Policy Analysis

- a. In order to make them binding, the general principles to govern the extent of delegation from Departments to their attached and subordinate offices

(executive agencies) may be incorporated in the Transaction of Business Rules. These principles may stipulate that the Ministries/Departments should concentrate on the following:

- i. Policy analysis, planning, policy making and strategic decisions
 - ii. Budgeting and Parliamentary work
 - iii. Monitoring of implementation through systems and procedures
 - iv. Appointments of key personnel
 - v. Coordination
 - vi. Evaluation
- b. Attached and subordinate offices should serve as the executive agencies of the ministries and concentrate on the implementation of Government policies and programmes.

6. (Para 5.5.3.3) Policy Evaluation

- a. Each Department should introduce a system of policy evaluation to be carried out at the end of prescribed periods. All relevant policies should be updated in the light of the findings of such evaluations.

7. (Para 5.6.10) Creation of Effective Executive Agencies

- a. Each Union Government Ministry should scrutinize the functions/activities of the ministry to confirm whether these activities/functions are critical to the mission of the Department and can only be carried out by government agencies. This should be done with reference to core areas mentioned by the Commission in para 4.1.1.a.
- b. Only those functions/activities that are in line with the principles enunciated in paragraph 5.5.2.7 (a) should be carried out directly by the Department/Ministries. Other functions/activities should be carried out by the executive agencies of the department.
- c. Each agency, whether a new body or an existing departmental undertaking/

agency/board/special purpose body etc. that is to function as an executive agency, must be autonomous or semi-autonomous and professionally managed under a mandate. Such executive agencies could be structured as a department, board, commission, company, society etc.

- d. The right balance between autonomy and accountability needs to be struck while designing the institutional framework of executive agencies. This could be achieved through well designed performance agreements, Memorandum of Understanding (MOU), contracts etc. However, preparing and enforcing such performance contracts requires considerable upgradation of capacity in the concerned government departments.

8. (Para 5.9.7) Reorganisation of Ministries

- a. Each Department should lay down a detailed scheme of delegation at all levels so that the decision making takes place at the most appropriate level. It should be laid down in the Manual of Office Procedure that every Ministry should prescribe a detailed scheme of delegation for its officers. This delegation should be arrived at on the basis of an analysis of the activities and functions of the Ministry/Department and the type of decisions that these entail which should be dovetailed with the decision making units identified in that Department.
- b. The scheme of delegation should be updated periodically and should also be 'audited' at regular intervals. The audit should ensure that the delegated authority is actually exercised by the delegatee. The scheme of delegation should be placed in the public domain.
- c. The number of levels through which a file passes for a decision should not exceed three.
 - i. In cases where the Minister's approval is required, the file should be initiated by the Deputy Secretary/Director concerned and should be moved through the Joint Secretary (or Additional Secretary/Special Secretary) and the Secretary (or Special Secretary) to the Minister.
 - ii. Cases requiring approval of the Secretary should go through just two levels (e.g. either US and Director, US and JS or Director and JS).

- iii. Cases requiring approval of the JS/Director/DS should come through just one level. The exact combination of levels should be spelt out in the scheme of delegation for each Ministry/Department whereas the number of levels as suggested above should be prescribed in the Manual of Office Procedure.
- iv. The Department dealing with administrative reforms in the Union Government should be entrusted with the task of ensuring compliance with this stipulation.
- d. For addressing cross cutting issues, the Secretary of the concerned Department should have the flexibility to create inter-disciplinary teams.
- e. The Manual of Office Procedure should be recast based on the principles stated in paragraph 5.9.
- f. The Departments should build an electronic database of decisions that are likely to be used as precedents. Thereafter such database should be periodically reviewed and where necessary, changes in rules introduced in order to codify them. There may also be precedents that may be the result of wrong or arbitrary decision making which the Department would prefer not to rely on for the future. In such cases the Department would have to appropriately change its policy/guidelines and if required even the rules to ensure that these precedents are not wrongly used.

9. (Para 5.12) Coordination Mechanisms

- a. There is need to ensure that the existing coordination mechanisms like the Group of Ministers, and Committee of Secretaries function effectively and help in early resolution of issues as stated in para 5.10 Selective, but effective use of GOMs with clear mandate and prescribed time limits, would be helpful.
- b. Unresolved issues concerning States which require inter-Ministerial coordination in Government of India, should be placed before the Committee of Secretaries (COSs) and then to the Union Cabinet for resolution.

10. (Para 6.4.8) Creating an Effective Regulatory Framework

- a. Setting up of a Regulator should be preceded by a detailed review to decide whether the policy regime in the concerned sector is such that a Regulator would be better placed to deliver the policy objectives of the department concerned.
- b. In addition to the statutory framework which underpins the interface between the government and the regulator, each Ministry/Department should evolve a 'Management Statement' outlining the objectives and roles of each regulator and the guidelines governing their interaction with the government. This would guide both the government department and the Regulator.
- c. There is need for greater uniformity in the terms of appointment, tenure and removal of various regulatory authorities considering these have been set up with broadly similar objectives and functions and should enjoy the same degree of autonomy. The initial process of appointment of Chairman and Board Members should be transparent, credible and fair.
- d. The appointment of the Chairman and Board Members for all such regulatory authorities should be done by the Union/State Governments after an initial screening and recommendation of a panel of names by a Selection Committee. The composition of the Selection Committee should be defined in the respective Acts and may broadly follow the pattern laid down in the Electricity Regulatory Commission Act.
- e. The tenure of the Chairmen and Board Members could also be made uniform preferably three years or 65 years of age whichever is earlier.
- f. Legal provisions regarding removal of Board Members should be made uniform while at the same time ensuring sufficient safeguards against arbitrary removal. This could be achieved by allowing removal by the Union Government only on fulfilment of certain conditions as laid down in Section 6 of the IRDA Act with the additional safeguard that a removal for abuse of power shall be preceded by an enquiry and consultation with UPSC.
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- h. A body of reputed outside experts should propose guidelines for periodic

evaluation of the independent Regulators. Based on these guidelines, government in consultation with respective Departmentally related Standing Committee of the Parliament should fix the principles on which the Regulators should be evaluated. The annual reports of the regulators should include a report on their performance in the context of these principles. This report should be referred to the respective Parliamentary Committee for discussion.

- i. Each statute creating a regulator should include a provision for an impact assessment periodically by an external agency. Once the objective of creating a level playing field is achieved, the intervention of the Regulators could be reduced in a phased manner ultimately leading either to their abolition or to convergence with other Regulators.
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**List of Reports Submitted by the
Second Administrative Reforms Commission up to February 2009**

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| 2. | Second Report: | Unlocking Human Capital: Entitlements and Governance – A Case Study |
| 3. | Third Report: | Crisis Management: From Despair to Hope |
| 4. | Fourth Report: | Ethics in Governance |
| 5. | Fifth Report: | Public Order – Justice for All . . . Peace for All |
| 6. | Sixth Report: | Local Governance – An Inspiring Journey into the Future |
| 7. | Seventh Report: | Capacity Building for Conflict Resolution – Friction to Fusion |
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