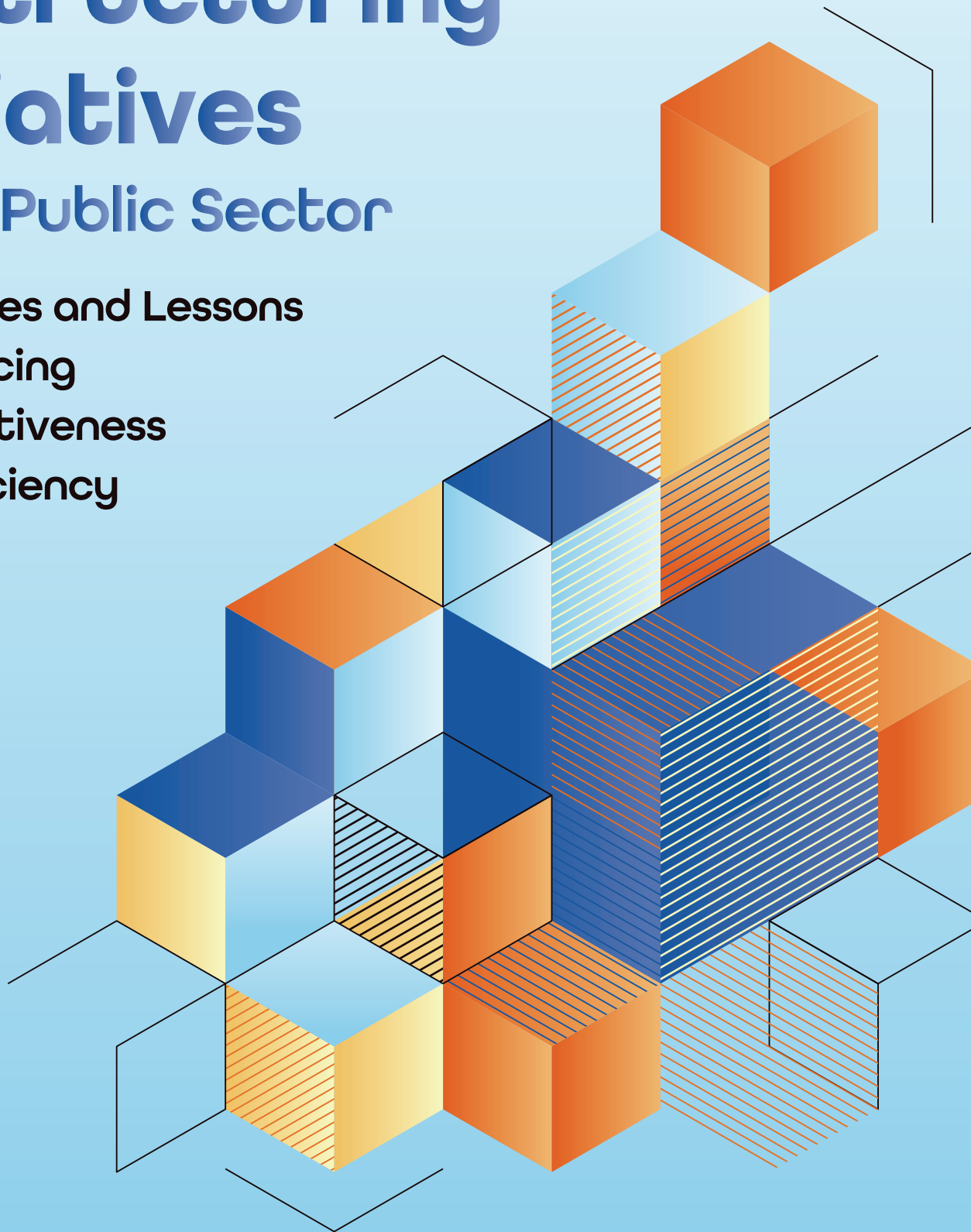# Strategic Approaches in **Rightsizing** and **Restructuring Initiatives** in the Public Sector

Challenges and Lessons in Enhancing its Effectiveness and Efficiency

Asian Productivity Organization

The Asian Productivity Organization (APO) is an intergovernmental organization that promotes productivity as a key enabler for socioeconomic development and organizational and enterprise growth. It promotes productivity improvement tools, techniques, and methodologies; supports the National Productivity Organizations of its members; conducts research on productivity trends; and disseminates productivity information, analyses, and data. The APO was established in 1961 and comprises 21 members.

APO Members
Bangladesh, Cambodia, Republic of China, Fiji, Hong Kong, India, Indonesia, Islamic Republic of Iran, Japan, Republic of Korea, Lao PDR, Malaysia, Mongolia, Nepal, Pakistan, Philippines, Singapore, Sri Lanka, Thailand, Turkiye, and Vietnam.

STRATEGIC APPROACHES IN RIGHTSIZING AND RESTRUCTURING INITIATIVES IN THE PUBLIC SECTOR

CHALLENGES AND LESSONS IN ENHANCING ITS EFFECTIVENESS AND EFFICIENCY

CONTENTS

FOREWORD

In an era marked by global crises, rising inflation, and geopolitical shifts, amid other uncertainties, governments worldwide face mounting fiscal constraints and economic challenges. These pressures have prompted fundamental reforms aimed at disciplined financial management and improved public service delivery. A notable reform is rightsizing and restructuring government operations as part of key strategies for good governance to enhance bureaucratic effectiveness and efficiency. Rightsizing and restructuring in the public sector are reforms rooted in new public management theory and good governance, embodying the principles of streamlining, downsizing, and rationalization. When executed effectively, such reorganization can yield long-term gains in productivity and citizen satisfaction.

This report *"Strategic Approaches in Rightsizing and Restructuring Initiatives in the Public Sector: Challenges and Lessons in Enhancing its Effectiveness and Efficiency"* examines various approaches of rightsizing and restructuring and assesses their impact on public-sector efficiency and effectiveness in achieving the desired socioeconomic outcomes of seven APO members, namely, Fiji, Malaysia, Nepal, Mongolia, Pakistan, the Philippines, and Sri Lanka. It explores recent advances in public administration and management in these economies to come up with recommendations to support governance reforms that prioritize rightsizing and restructuring. The goal is to create a more agile, responsive, and sustainable public administration equipped to address current and future challenges.

A key highlight of this report is the different approaches undertaken by these governments, shaped by their unique national contexts. While facing some common challenges, such as bureaucratic inefficiencies and ineffectiveness, political resistance, and implementation complexity, a major focus has been capacity-building among civil servants to ensure the sustainability of the reforms. To further enhance the different initiatives in rightsizing and restructuring, the recommendations emphasize the importance of comprehensive, context-sensitive applications, and broader public-sector reforms that go beyond capacity-building alone. More importantly, cross-cutting success factors include the need for political will and leadership commitment, stakeholder engagement, capacity development, digital adoption and transformation, and institutional accountability.

The APO extends sincere gratitude to Chief Expert Professor Myung Jae Moon, Underwood Distinguished Professor at Yonsei University's Department of Public Policy and Management (Republic of Korea) as well as the national experts from Fiji, Malaysia, Nepal, Mongolia, Pakistan, the Philippines, and Sri Lanka. The report concludes that for rightsizing and restructuring reforms to succeed in improving bureaucratic efficiency and effectiveness, three strategic areas demand attention: the size of government, scope of government functions, and government capacities. These ongoing reforms emphasize the persistent difficulties and constraints of governance and administration in the public sector, which are issues of critical importance to the APO and regional society at large.

Dr. Indra Pradana Singawinata
Secretary-General
Asian Productivity Organization
Tokyo

CHAPTER 1: INTRODUCTION

REASSESSING GOVERNMENT SIZE AND EFFICIENCY IN PUBLIC SECTOR REFORMS

Background

While the late 19th-century reforms established the foundation for a robust and expansive executive branch, the reforms of the late 20th century, shaped by neoliberalism, emerged as a reaction against large and inefficient government structures. These later reforms provided a blueprint for a smaller government. Countries, such as Australia, New Zealand, United Kingdom, and the United States of America (USA) pursued government efficiency and customer satisfaction through privatization, decentralization, and deregulation under the New Public Management (NPM) framework. Over the past two decades, NPM reforms have promoted indirect public service delivery via third-party providers, prioritizing privatization and contractor-led government. For instance, major infrastructure and large-scale national projects, traditionally managed by the government, have increasingly shifted to the private sector, redefining the relationship between government and private entities through flexible cooperative arrangements.

Under the "Washington Consensus," international organizations, such as the IMF and the World Bank, led by the USA, took concrete steps to reduce government intervention in markets (Salamon, 2002). Rather than directly delivering public services, governments actively pursued policies, such as outsourcing and privatization. At the same time, decentralization initiatives were implemented to enhance government competitiveness, accountability, and responsiveness, leading to significant reductions in direct public service delivery.

However, the past three decades of unwavering preference for small and efficient government have been reassessed in light of the practical need for an effective and capable government. Many administrative reforms aimed at government efficiency have been proven ineffective. For example, public sector employment has remained relatively stable and the proportion of government expenditure in GDP has continued to rise. Consequently, the focus has shifted from merely reducing government spending to optimizing its effectiveness in achieving policy objectives. The perception that government organizations as inherently inefficient and ineffective has been challenged, with recognition that government agencies can often be more effective and outperform private-sector alternatives. Direct government service provision is sometimes more cost-effective, stable, and easier to control compared to outsourcing. Additionally, growing awareness of the limitations and challenges of privatization has prompted discussions on reverse privatization and contract-back-in arrangements. This renewed interest in core government functions raises critical research questions in public administration: What essential roles and functions must the government continue to fulfill? How do societal demands shape government roles and functions in the 21st century? And how can government agencies improve efficiency without resorting to outsourcing or privatization?

Rightsizing and Restructuring for Bureaucratic Efficiency

Governments worldwide face massive challenges in embracing digital transformation and navigating the postpandemic era. They stand at a crossroads, seeking alternative and innovative ways to make their organizations more efficient, agile, adaptable, flexible, resilient, and competent. During the pandemic, many governments found themselves unprepared for complex, emerging problems often characterized by VUCA (volatility, uncertainty, complexity, and ambiguity). To maximize resource utility, improve public service quality, and enhance national competitiveness while increasing cost-efficiency in the public sector, governments must overcome conventional bureaucratic inefficiencies, such as X-inefficiency, Parkinson's Law, and Peter Principle.

Rightsizing, often paired with various public sector innovations, like restructuring, business process reengineering, privatizing (outsourcing), digitalization, coproduction, and citizen-sourcing, was initially framed as a refined extension of downsizing. It primarily targets efficiency and cutback management, particularly reflecting the ethos of the NPM movement of the late 1970s and 1980s, when significant social pressure demanded smaller and more efficient government (Minogue 1998).

NPM emerged through various initiatives, including neo-managerialism, entrepreneurial governments, reinventing governments, and market-based governments, which commonly emphasize efficiency, customer satisfaction, public entrepreneurship, and competition (Moon & Welch 2000; Moon & deLeon 2001). However, downsizing and other NPM-driven innovations often led to problems of hollowed-out governments that impede government agencies' critical missions. It has been also often found that substantive resource cuts tend to weaken governments' policy and management capacity to cope with various challenges or unexpected crises, like a pandemic (Goldstein 2020).

According to the Ngram analysis summarized in Figure 1.1, attention to rightsizing rose sharply in the mid-1980s before declining after the 2000s. Due to growing demands for efficient yet effective government performances, rightsizing and restructuring are expected to regain relevance as innovative responses to potential wicked problems like COVID-19.

This highlights the need for governments to shift focus from downsizing to rightsizing and restructuring, aiming to improve cost-efficiency while maintaining and even upgrading government capacity and administrative effectiveness.

FIGURE 1.1

NGRAM ANALYSIS FOR RIGHTSIZING
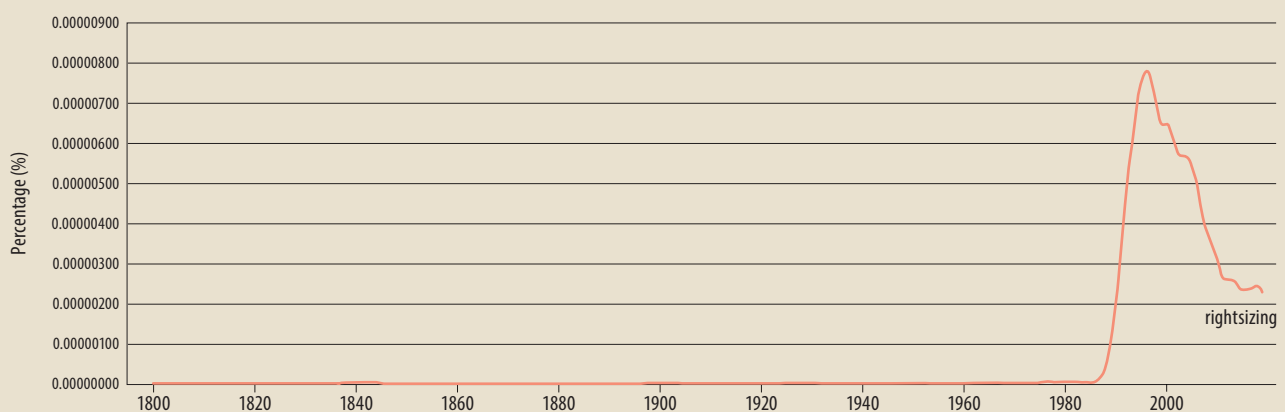
Source: Prepared by the author based on Ngram Viewer results.

From Downsizing to Rightsizing

Downsizing and cutback management are common approaches adopted by both public and private organizations during times of austerity. Downsizing typically involves reducing workforce sizes and eliminating structural and functional redundancies to address financial challenges or external pressure to improve efficiency. While this approach can achieve immediate cost reduction, it does not guarantee sustainable competitiveness, as it may weaken operational and future capacity.

In contrast, rightsizing aims to improve cost-efficiency while preparing for future needs by restructuring organizations and reallocating resources based on a reasonable assessment of institutional capacities and environmental changes. Rightsizing often goes beyond simple downsizing, requiring careful design and implementation to achieve positive outcomes without compromising core organizational and governing capacities. This process involves aligning personnel sizes, government functions, and agency structures by identifying and addressing potential duplications, redundancies, and overlaps.

Government Size, Scope of Function, and Capacity

Rightsizing and restructuring reforms often target three strategic target areas: size of government, scope of government functions, and administrative capacities. Government size often faces scrutiny when criticized for wastefulness and inefficiency while fiscal scale and the number of public employees are among the most commonly used indicators. While these two indicators are correlated, these metrics represent different aspects of government operations. A government with high expenditures that primarily delivers services through indirect means may appear large fiscally but maintain a relatively small workforce. A comprehensive analysis of government expansion and efficiency should therefore consider both fiscal scale (proportion of government expenditure as a percentage of annual GDP) and workforce size (proportion of public employees to total population).

The size of government must also be evaluated in relation to government scope. The role of government evolves in response to macrolevel changes, such as globalization and digitization, as well as microlevel shifts in citizen expectations for public services. These adaptation efforts often materialize through administrative reforms and organizational restructuring. However, some core government functions remain essential and are resistant to demands for rightsizing and structural reform initiatives.

Despite ongoing debates on government efficiency, one of the primary reasons for sustaining direct government service provision is that the government remains the most reliable provider in many cases. Outsourcing and third-party service provision rely on contractual mechanisms that require time-consuming procurement processes, whereas the government ensures predictable and stable public services.

Fukuyama (2004) explores government functions and capacity in *"State-Building: Governance and World Order in the 21st Century"*. While acknowledging the theoretical appeal of NPM's advocacy for smaller government, he argues for a strategic approach to defining government roles in terms of the scope of government functions and capacity. He also differentiates between reducing the "scope" of government and diminishing its "capacity", emphasizing that certain government functions should be strengthened rather than merely minimized.

TABLE 1.1

SIZE, SCOPE OF GOVERNMENT, AND GOVERNMENT CAPACITY

		Size/ Scope of Function	
		Low	**High**
Government Capacity	High	Model 1: Small (Minimal) but Efficient	Model 2: Large but Effective
	Low	Model 3: Incompetent (impoverished)	Model 4: Large and Inefficient (Wasteful)

Table 1.1 presents a conceptual framework for evaluating government structures based on two dimensions: Government Capacity and Size/Scope of Function. In the horizontal axis (Size/Scope of Function), the left side represents a government with low functional scope, indicating minimal responsibilities and involvement while the right side represents a government with high functional scope, signifying extensive responsibilities and intervention across multiple sectors.

In the vertical axis (Government Capacity), the top represents a high-capacity government, capable of efficiently implementing policies and managing resources while the bottom represents a low-capacity government, which struggles with inefficiency, resource mismanagement, and administrative weaknesses.

Four quadrants are described as follows:

i)   **Small but efficient (Quadrant 1)** - This represents a minimalist government with limited functions but high efficiency in executing its responsibilities. This model is often associated with lean governance structures focusing on essential services with strong institutional effectiveness.

ii) **Large and capable (Quadrant 2)** - The second model represents a large government with an extensive range of functions but strong capacity to manage them effectively. This model is ideal for comprehensive public service delivery while maintaining efficiency.

iii) **Small and weak (Quadrant 3)** - The third model reflects a small government that lacks both resources and capability, leading to weak governance and service provision. This is often seen in underdeveloped or failing states with inadequate public institutions.

iv) **Large and inefficient (Quadrant 4)** - This final model represents a large government with expansive responsibilities but low capacity, resulting in inefficiency and resource wastage. This model is often associated with excessive bureaucracy, corruption, and ineffective public service delivery.

This framework helps assess different governance models based on their size and effectiveness, highlighting the trade-offs between government scope and administrative efficiency. Governments typically aim to shift from Quadrants 3 and 4 to Quadrants 1 and 2 through various rightsizing initiatives and reforms.

Tools for Rightsizing in the Public Sector and Beyond

Rightsizing is a strategic process that focuses on optimizing an organization's structure, workforce, and resource allocation to improve efficiency, reduce redundancy, and enhance overall performance. It goes beyond mere downsizing by adopting a holistic approach that aligns resources with mission objectives, service demands, and fiscal realities. In an era marked by rapid technological change, fiscal constraints, and evolving citizen expectations, organizations, particularly in the public sector, must adopt a suite of tools to navigate the complexities of rightsizing effectively.

Among the most critical tools for rightsizing is strategic human resource management, which ensures that human capital is aligned with institutional goals through workforce planning, talent development, and succession strategies. This is complemented by performance management, a systematic approach that links employee performance to organizational outcomes via objective setting, monitoring, evaluation, and feedback mechanisms. Governments also often refer to financial management and budgetary reform, which plays a foundational role, enabling organizations to allocate budgets in an efficient and effective way, ensuring a long-term financial sustainability.

More structural approaches include privatization and the restructuring of state (or government)-owned enterprises (public corporations), which allow governments to refocus on core functions, leverage private-sector efficiencies, or divest from underperforming entities. Decentralization and devolution also serve as another vital mechanisms, redistributing administrative and fiscal responsibilities to local governments or autonomous bodies to improve responsiveness, resource allocation, and citizen engagement.

Lastly, digitalization has also emerged as a transformative enabler of rightsizing, introducing tools, such as e-governance platforms, data analytics, AI, and automation, to streamline processes, reduce manpower demands, and improve service delivery. Other tools, such as organizational audits, legislative reform, and citizen engagement mechanisms, also support rightsizing by providing critical information and fostering transparency and accountability.

Together, these tools represent a multidimensional approach to rightsizing that balances economic rationality with social responsibility, strategic planning with operational flexibility, and innovation with institutional continuity.

Outline of the APO Member Report

This report comprises seven Asian Productivity Organization (APO) member economies' reports, including Fiji, Malaysia, Nepal, Mongolia, Pakistan, the Philippines, and Sri Lanka. Each report follows a standardized structure, including:

- Introduction, Background, and Overview

- Rightsizing Issues in the Country (National) Context

- Demand Side of Rightsizing and Restructure (Why are rightsizing and restructuring reforms needed?)

- Supply Side of Rightsizing and Restructuring Initiatives (What has been done for rightsizing)

- Locus, Focus, and Actors in Rightsizing and Restructuring Initiatives

- Success and Failure Cases of Rightsizing

- Conclusion, Recommendations, and Lessons Learned

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CHAPTER 2: FIJI

RIGHTSIZING FIJI'S PUBLIC SECTOR - A DECADE OF REFORM IN THE MINISTRY OF EMPLOYMENT, PRODUCTIVITY, AND WORKPLACE RELATIONS

Abstract

Rightsizing, a strategic reform initiative rooted in the principles of New Public Management (NPM), has gained significant traction globally as governments seek to navigate fiscal constraints while enhancing service delivery. This study examines the rightsizing and restructuring initiatives implemented by Fiji's Ministry of Employment, Productivity, and Workplace Relations (MEPWR) over the past decade, focusing on the underlying drivers, key initiatives, and outcomes. As a central institution within Fiji's socioeconomic framework, MEPWR has faced persistent challenges in balancing limited fiscal resources with escalating demands for improved service provision and regulatory oversight.

The research identifies critical reforms undertaken to enhance institutional efficiency and effectiveness, including Business Process Re-engineering, ISO 9001 certification, devolution of HR functions, digitization of services, implementation of an open merit recruitment system, and restructuring of pay systems. These measures were strategically designed to align workforce competencies with organizational objectives and improve overall service delivery. Findings indicate that MEPWR's rightsizing initiatives have been primarily driven by fiscal constraints, operational efficiency needs, and adaptation to evolving labor market dynamics and digital transformation. Notable achievements, such as ISO 9001 certification and digitization of selected regulatory processes, have improved service efficiency, standardization, and workforce optimization. However, persistent challenges, including financial limitations and institutional inertia, have hindered the sustainability of these reforms. The study identifies key success factors, like strong leadership, employee engagement, and alignment with broader government reform agendas while also highlighting critical barriers that have impeded progress.

The study concludes by proposing strategic recommendations to strengthen MEPWR's rightsizing efforts. These include reinstating ISO certification, implementing a comprehensive digital transformation strategy, securing sustainable financial resources, and conducting strategic workforce planning. These interventions are crucial for enhancing operational efficiency, ensuring fiscal sustainability, enhancing productivity, and aligning MEPWR's organizational structure with contemporary labor market demands.

Introduction

Rightsizing is a strategic reform initiative closely aligned with the principles of New Public Management (NPM) (Abdullahi, 2023). This approach seeks to enhance operational efficiency, adapt structures to evolving demands, and reduce costs. It involves a systematic evaluation and restructuring of organizations to ensure they are lean, efficient, and responsive to the needs of the business and

customers. Rightsizing has become increasingly important as governments worldwide grapple with fiscal constraints and the imperative for improved service delivery.

A significant advantage of rightsizing is its ability to align workforce capabilities with the strategic objectives of public service organizations, thereby enhancing service delivery. This process enables governments to streamline operations, eliminate redundancies, and ensure employees possess the necessary skills to address current and future challenges effectively (Okolo et al., 2024). Complementary to this is the concept of cost-effectiveness, which assesses the extent to which government expenditures achieve desired outcomes at the lowest possible cost. Cost-effectiveness analysis (CEA), a widely recognized tool in public administration, provides a systematic framework for comparing the relative costs and benefits of various programs or policies. By employing CEA, policymakers can make evidence-based decisions to optimize resource allocation, ensuring public funds are deployed efficiently and effectively (Drummond et al., 2015). Together, these strategies reinforce the importance of aligning workforce optimization with fiscal efficiency to improve overall government performance.

Moreover, the principles of NPM advocate for incorporating private sector practices into public administration to enhance responsiveness (Kasmiah et al., 2024). Among these practices, rightsizing stands out as a strategic approach for adapting to changing environments. Rightsizing goes beyond the narrow scope of downsizing, offering a broader framework aimed at aligning organizational structures, workforce capabilities, and operational strategies with long-term objectives (Shivangi, 2021). Unlike downsizing, which focuses on short-term cost reduction, rightsizing emphasizes sustainable restructuring to meet evolving demands and mitigate the long-term disadvantages often associated with indiscriminate workforce cuts. Incorporating private-sector rightsizing principles into public administration can offer governments valuable tools for adapting to rapid changes in socioeconomic conditions and fiscal constraints. This approach enables public institutions to adopt innovative service delivery mechanisms that improve efficiency, address administrative challenges, and build public trust through enhanced responsiveness (Siwar, 2016).

Achieving lasting and comprehensive public sector reforms has proven challenging for many administrations worldwide. Common obstacles include fragmented approaches, inadequate coordination across overlapping jurisdictions, and resistance to change (Christensen et al., 2002). While challenges exist, some governments have found success in implementing effective public sector reforms. These initiatives often involve a combination of strategies tailored to the specific context and needs of the jurisdiction. Successful reforms are typically characterized by strong political leadership, inclusive stakeholder engagement, data-driven decision-making, and a focus on continuous improvement and organizational learning (Anderson, 2011; Jurisch et al. 2012).

This chapter examines the drivers, initiatives, and impacts of the rightsizing and restructuring of the Ministry of Employment, Productivity, and Workplace Relations (MEPWR) in Fiji over the last decade. It highlights the fiscal pressures necessitating rightsizing and restructuring to ensure sustainable resource allocation and improved service delivery. Key reforms include Business Process Re-engineering (BPR) for operational efficiency, ISO 9001 certification for standardized processes, the devolution of HR functions for autonomous workforce management, and the digitization of services to improve accessibility and productivity. Other significant initiatives include the introduction of restructured pay system aligning MEPWR salaries with market rates and the introduction of an open merit recruitment system.

The selection of MEPWR as the subject of this study is substantiated by its pivotal role in driving employment growth, enhancing workplace productivity, and implementing key labor market policies in Fiji. As a critical institution in the nation's socioeconomic framework, MEPWR has faced considerable challenges in balancing limited fiscal resources with increasing demands for improved regulatory oversight and service delivery. The ministry's reform initiatives, therefore, offer a valuable case study on the application of rightsizing strategies within a developing country context.

Background and Overview

Fiji's Governance Structure

The Constitution of the Republic of Fiji establishes a system of government divided into three distinct arms: the Legislature, the Executive, and the Judiciary.

Legislature

As the embodiment of the legislative branch, the Parliament is responsible for enacting laws, voicing public interests, investigating matters of societal importance, and scrutinizing government actions. Comprising 55 members, the Parliament includes representatives from political parties and independent candidates, with the majority party forming the government. An independent Speaker oversees parliamentary proceedings while the Opposition consists of parties or members not part of the government.

Executive

The Executive administers laws passed by Parliament and oversees government programs and services. Executive authority is vested in the president, who acts on the advice of the government. The prime minister, as head of government, leads the majority party in Parliament and chairs the Cabinet, the principal decision-making body. Cabinet ministers, drawn from government Members of Parliament (MPs), manage specific portfolios and are accountable to Parliament for their functions.

Judiciary

The Judiciary interprets and enforces the laws of Fiji through an independent court system, which includes the Supreme Court, Court of Appeal, High Court, Magistrates Court, and other legally established tribunals. Operating independently of the Legislature and the Executive, the Judiciary ensures impartial administration of justice.

Overall, this tripartite structure ensures the separation of powers and supports a balanced governance framework.

MEPWR's Administrative Structure

FIGURE 2.1

MEPWR ADMINISTRATIVE STRUCTURE
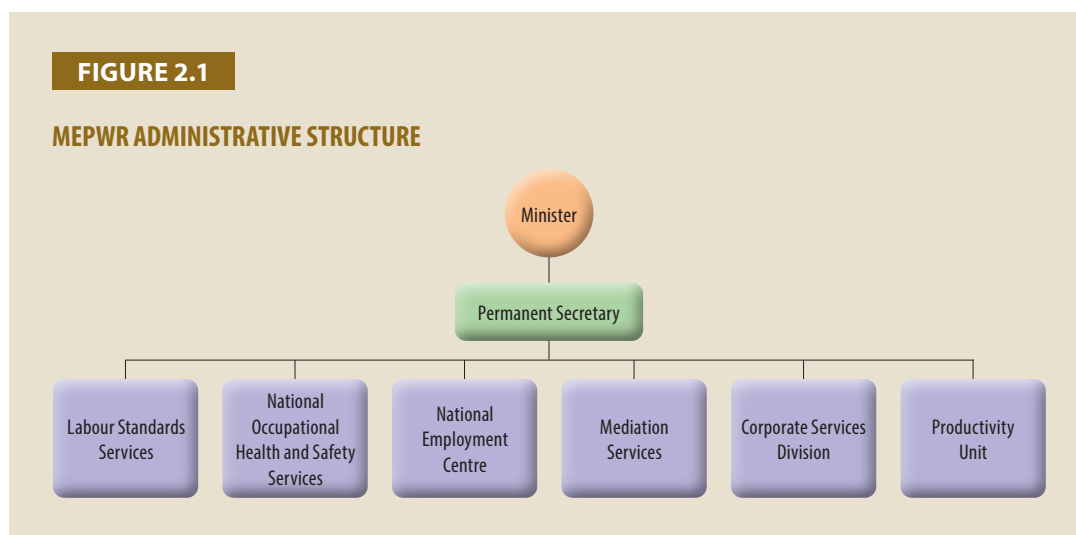
MEPWR is overseen by the minister, who provides political oversight and direction. The ministry currently operates without an assistant minister, though such a position has existed in previous administrations to offer additional support within the ministry's jurisdiction. Administratively, MEPWR is headed by a permanent secretary and organized into six principal divisions, each dedicated to distinct aspects of service provision. These are: (i) Labour Standards Services; (ii) National

Occupational Health and Safety Services; (iii) National Employment Centre; (iv) Productivity Unit; (v) Mediation Services; and (vi) the supporting Corporate Services Division. This structure ensures comprehensive service delivery across the ministry's portfolio.

MEPWR is responsible for formulating and implementing policies related to employment, productivity, and workplace relations. Its mission includes promoting fair labor standards, enhancing productivity in the workforce, and fostering harmonious workplace relations. The ministry's key functions are guided by several legislative and policy frameworks in delivering critical services.

- The **Labour Standards Division** upholds the Employment Relations Act (ERA) 2007 and related regulations, focusing on compliance, labor rights, dispute resolution, and policy development. It also addresses key areas, such as child labor and maintains data for reporting

- The **National Employment Centre**, established under the National Employment Centre Act 2009, provides employment and training services to reduce unemployment and align with the Millennium Development Goals and the ILO Global Jobs Pact

- The **Productivity Unit**, initiated under the ERA 2007 and influenced by the 2005 Fiji Productivity Charter, drives national competitiveness through wage surveys and workplace productivity forums, such as the Labour Management Consultation and Cooperation Committee

- The **National Occupational Health and Safety Division** enforces workplace safety through regulations and standards derived from occupational health and safety (OHS) policies and guidelines. It incorporates various specialized units to manage training, risk engineering, and field operations while supporting workers through a Workers' Compensation Service

- **Mediation Services**, governed by Section 193 of the ERA 2007, provides an accredited platform for dispute resolution via professionally trained mediators

- Supporting these divisions, the **Corporate Services Division** ensures operational alignment with internal policies, financial regulations, and strategic goals through functions, such as planning, HR, and IT while also addressing public communication through media relations

This comprehensive legal and policy framework underpins MEPWR's mandate to foster safe, productive, and fair workplaces in Fiji

Evolution of MEPWR

Over the past two decades, the name and function of MEPWR have evolved significantly. Designated as the Ministry of Labour, Industrial Relations, and Productivity in 2003, it was renamed the Ministry of Labour, Industrial Relations, and Employment in 2008, then changed to the Ministry of Employment, Productivity, and Industrial Relations in 2014. On 1 August 2024, the ministry formally adopted its current designation as the Ministry of Employment, Productivity, and Workplace Relations (MEPWR). According to MEPWR press releases, this rebranding initiative aligns the ministry's objectives with modern global workplace trends and ILO directives (Fiji Government, 2024).

Rightsizing in the National Context

Fiji's civil service has experienced significant reforms over the past three decades, largely driven by the structural adjustment policies initiated in the late 1980s. Beginning in 1985, the reform process has been marked by persistent efforts to reengineer the public sector through the establishment of new organizational frameworks and downsizing initiatives. Each administration's reform measures were closely aligned with the national priorities set by incumbent leadership, resulting in considerable variability in the strategies employed. These reforms have been guided by fundamental principles, such as economic viability, operational efficiency, and overall effectiveness, reflecting the broader global trend observed in civil service reforms (Sharma & Lawrence, 2005).

In the 1990s, recognizing the inefficiency and ineffectiveness of public enterprises, the Fijian government initiated efforts to improve their performance. The 1993 budget address to Parliament, justified these reforms, citing the suboptimal functioning of public enterprises and their failure to meet the desired standards of efficiency and productivity (Appana, 2003). Subsequently, the Cabinet endorsed the corporatization and commercialization of several state-owned entities under the provisions of the Public Enterprise Act (1996). This list includes Airports Fiji Limited, the Department of Telecommunications, Roads, Water, and Construction and Maintenance, the Government Supplies Department, and the Government Printing and Stationery Department.

In addition to domestic pressure for reform, external factors also exerted considerable influence on Fiji's decision to pursue structural changes. The process of globalization coupled with the successful implementation of reforms in nations, like New Zealand and Australia, spurred Fiji to undertake similar measures. International donor agencies, particularly the World Bank, IMF, and ADB, were strong proponents of these reforms (Prasad & Reddy, 2002). Previous attempts at rightsizing have been marked by significant public-sector reforms aimed at enhancing efficiency and accountability. Despite these efforts, the outcomes of the rightsizing initiatives in Fiji have been mixed. These reforms have often been challenged by political instability, including the three coup d'états since 1987, which disrupted continuity and eroded public confidence in reforms (Sikivou, 2023; Mahadevan & Asafu-Adjaye, 2011). Despite these ambitious objectives, the outcomes in the early years have been inconsistent, with notable challenges faced in implementing sustainable rightsizing initiatives.

Between 2011 and 2018, Fiji's civil service underwent a series of significant reforms aimed at enhancing public sector performance and improving access to and delivery of essential services. Central to these efforts was increasing the productivity and efficiency of the civil service. To facilitate this process, the Civil Service Reform Management Unit was established to provide technical expertise and advisory support. In collaboration with the World Bank, a comprehensive reform program was developed and implemented, encompassing three critical pillars designed to modernize and strengthen the civil service.

- The first pillar focused on the **implementation of devolution**, aiming to decentralize key administrative functions while improving HR processes, including recruitment, selection, and remuneration. This pillar also addressed systemic challenges, such as capacity-building, staff retention, and skill shortages, which were identified as significant barriers to effective service delivery

- The second pillar emphasized the need to **strengthen central agencies** by redefining their roles to align with the restructured and devolved civil service framework

- The third pillar prioritized improving service delivery through the **adoption of e-services**, leveraging technology to modernize government operations and enhance public accessibility

These pillars of civil service modernization are central to the rightsizing and restructuring of the MEPWR. Devolution decentralizes key administrative functions, enabling MEPWR to address region-specific skill shortages, enhance local responsiveness, and optimize HR processes, such as recruitment and capacity-building, ensuring a fit for purpose and skilled workforce.

Redefining the roles of central agencies allows MEPWR to focus on national strategies, like addressing labor concerns, skill gaps, and enhancing labor productivity. The adoption of e-services modernizes operations by digitizing processes, reducing reliance on manual systems, and improving public accessibility to services. Together, these reforms were introduced within MEPWR's operations aimed at reducing redundancies, containing expenditure, and enhancing service delivery, aligning the ministry's transformation with the government's broader goals of fiscal sustainability and macroeconomic stability.

Demand Side of Rightsizing and Restructuring

A primary reason for the rightsizing of the civil service is the increasing fiscal pressure on governments, which necessitates a reevaluation of expenditures and resource allocation. Regardless of their political orientation, governments often face the imperative to implement reforms during times of financial strain. Research indicates that both left- and right-wing governments are compelled to adopt fiscal consolidation measures, albeit with varying degrees of intensity, depending on their ideological leanings (Hübscher, 2015). This fiscal pressure can lead to reassessment of the size and structure of government ministries to ensure that resources are effectively utilized and that public services remain sustainable.

Over the years, MEPWR's salary budgets for both established posts and government wage earners (GWE) have shown consistent growth. For instance, the established salary budget increased from FJD2,797,200 (~USD1.26 million) in 2011 to FJD6,511,000 (~USD2.93 million) in 2023–24 while the GWE salary budget rose from FJD145,200 (~USD65,340) to FJD388,700 (~USD174,915) in the same period, as illustrated in Figure 2.2.

FIGURE 2.2

MEPWR SALARY BUDGET 2011–24

Source: Annual budget estimates 2011–24 by Ministry of Finance, Fiji.
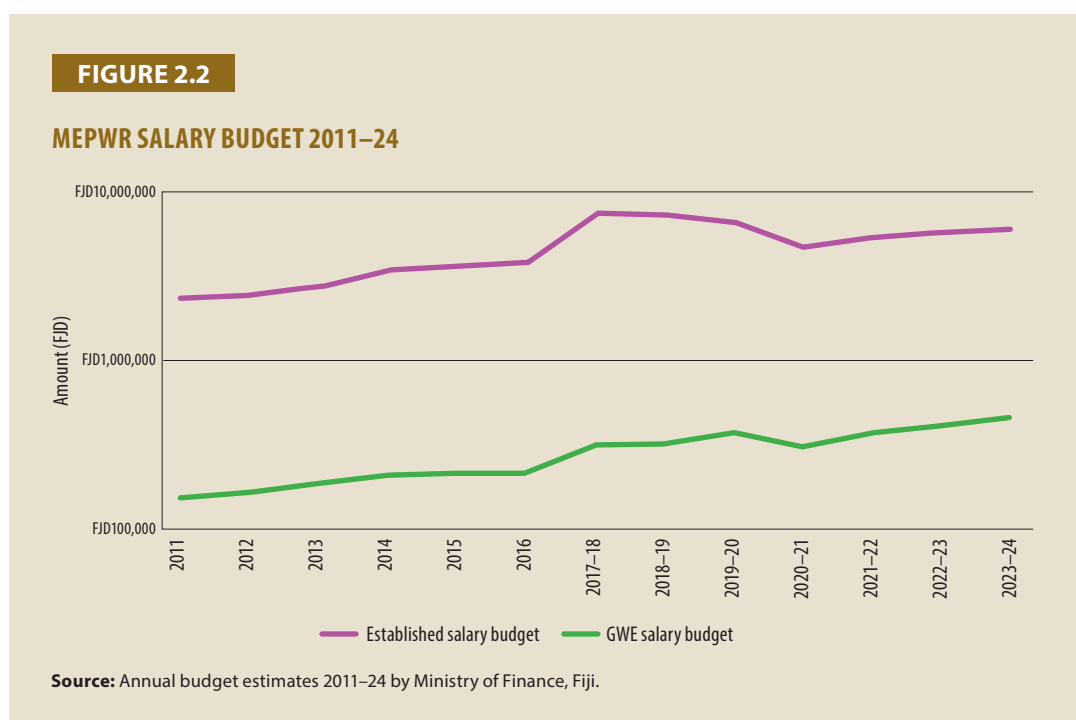
Wage bills constitute a significant portion of MEPWR's overall expenditures. For example, in 2023–24, salaries accounted for more than 66% of the total budget of FJD10,318,300 (~USD4.64 million). Unchecked growth in this area can lead to fiscal imbalances and limit the ministry's ability to invest in essential programs and services that directly benefit the community. Additionally, public wage bills can fluctuate significantly in response to economic conditions, and excessive wage growth can create challenges during economic downturns when revenue constraints may necessitate cuts in public spending (Eckardt & Mills, 2014). Therefore, it is imperative to implement measures that control salary expenditures while maintaining a competitive compensation structure.

Another critical demand for the restructuring and rightsizing of MEPWR lies in the need to establish standardized service processes, reduce inefficiencies, eliminate redundancies, and enhance service delivery. Given MEPWR's presence across multiple districts, including its head office in Suva and district officers in the Western and Northern divisions, ensuring uniform service delivery and standardized turnaround times for service requests is imperative. Additionally, adaptation to the

evolving demands on the ministry to address both the current and future societal needs effectively remains critical. Key drivers, such as shifts in the labor market and the increasing influence of digitalization require aligning the ministry's structure and workforce capabilities with these emerging challenges.

Supply Side of Rightsizing and Restructuring: Drivers and Initiatives

The MEPWR in Fiji has been an integral participant in the Fijian government's overarching civil service reforms, which have aimed at modernizing government operations, enhancing public service delivery, and cultivating a workforce capable of meeting Fiji's developmental objectives. The following analysis examines key reforms and initiatives impacting MEPWR from 2011 to 2024.

Key Reforms and Initiatives

Business Process Re-engineering (BPR)

As part of the Fijian government's modernization efforts, the BPR initiative in 2012 targeted large ministries, including MEPWR, to streamline operations. This initiative, which aimed at restructuring internal systems and workflows, emphasized the adoption of ICT solutions, such as e-government platforms, to enhance service efficiency and accessibility. For MEPWR, BPR focused on improving administrative processes to support employment relations, workplace productivity, and worker rights, thereby providing a foundation for more responsive public service functions.

ISO 9001 Certification

MEPWR achieved ISO 9001:2008 certification in 2014 for its National Occupational Health and Safety Service (NOHSS) and Mediation Service, marking a significant milestone in its broader Operational Reform agenda. This certification served not merely as a quality assurance measure but as a strategic tool for rightsizing and restructuring. It is especially aimed at enhancing efficiency, eliminating redundancies, and improving service delivery. Supported by the Asian Productivity Organization (APO), the ministry implemented a comprehensive Quality Management System (QMS) to align its operations with internationally recognized standards, thus ensuring process standardization and operational coherence across all service areas.

A key component of this initiative was the systematic identification and resolution of inefficiencies and overlapping functions through rigorous internal audits and final certification by the United Kingdom Accreditation Service (UKAS). By streamlining workflows, eliminating unnecessary bureaucratic layers, and clarifying role responsibilities, the certification process directly contributed to rightsizing efforts, ensuring that human resources were optimally allocated to core functions while redundant or inefficient processes were either restructured or phased out.

Furthermore, the establishment of robust Standard Operating Procedures (SOPs) under the QMS reinforced organizational restructuring by institutionalizing uniform service delivery protocols across all divisional offices. This decentralization reduced operational inconsistencies and facilitated a more agile, responsive, and accountable workforce. Additionally, the introduction of customer feedback mechanisms allowed the ministry to adopt a data-driven approach to service improvements, fostering continuous refinement of processes while enhancing employee engagement by instilling a culture of accountability and ownership over restructured systems.

Beyond the initial certification of NOHSS and Mediation Services, nine additional core business areas achieved ISO 9001:2008 conformance in 2014, followed by the Labour Standards Services and the National Employment Centre in 2015. This progressive expansion of ISO-certified operations further entrenched a structured and efficient framework, aligning with the ministry's rightsizing objectives by ensuring that resources, personnel, and operational processes were optimally configured to meet strategic service delivery goals.

Devolution and Digitalization

The devolution of HR functions, encompassing both recruitment and salary management, to MEPWR constitutes a strategic restructuring initiative designed to enhance operational efficiency and optimize workforce utilization. Through this decentralizing of authority, MEPWR acquired the operation autonomy necessary to address critical skill gaps and recruit personnel possessing the specialized expertise required by its operational requirements. This rightsizing serves to align human capital resources with institutional priorities, thereby strengthening the ministry's capacity to effectively execute its mandated responsibilities.

Concurrently, MEPWR implemented a structured digitization agenda aimed at modernizing service delivery and improving accessibility. A key milestone in this digital transition was the integration of the Application for Occupational Health and Safety (OHS) - General Workplace Inspection into the BusinessNow Fiji platform, which was successfully operationalized in 2024. As part of broader governmental digital transformation efforts, this initiative significantly decreased processing times and minimized administrative inefficiencies, resulting in more streamlined compliance monitoring procedures.

Further advancing its digital reform strategy, MEPWR initiated the development of an integrated, paperless compliance inspection system in 2024 to bolster enforcement of the Employment Relations Act across businesses and workplaces. This system, officially launched on 11 February 2025 as the Paperless Labour Inspection Service, is poised to improve productivity, enhance service delivery, and ensure regulatory integrity. By leveraging digital tools, the system facilitates real-time data collection, expedites inspection turnaround times, and enhances evidence-based policy formulation.

Open Merit Recruitment and Selection (OMRS) Guideline and Civil Service Salary Review

The OMRS guideline, implemented in 2017, reinforced merit-based recruitment practices across the civil service, including MEPWR. This guideline mandated that hiring be conducted based on qualifications and job-related competencies, thus establishing an equitable and transparent recruitment framework. For MEPWR, the OMRS approach was particularly relevant as it allowed the ministry to assess and hire candidates with specialized knowledge in labor and employment fields, creating a workforce well-suited to execute MEPWR's mandate efficiently.

Additionally, the civil service salary review resulted in a restructured pay system with 15 salary bands, aligning MEPWR salaries with market rates and ensuring fair compensation. This was critical for MEPWR, where specific roles required expertise in employment law, productivity enhancement, and technical skills in occupational health and safety, often necessitating competitive salaries to attract and retain skilled professionals.

Locus, Focus, and Actors in Rightsizing and Restructuring Initiatives

MEPWR's ISO 9001 certification, Devolution and Digitization, and Civil Service Salary Review initiatives formed integral components of a broader rightsizing and restructuring agenda. These reforms specifically targeted to enhance organizational efficiency, eliminate redundancies, and optimize workforce allocation to improve service delivery. Their successful implementation of these initiatives required a clear delineation of three critical dimensions: the locus (where the initiative took place), focus (what the initiative aimed to achieve), and actors (key stakeholders involved in the initiative).

ISO 9001 Certification

Locus

The ISO 9001 certification initiative was within MEPWR, particularly targeting its National Occupational Health and Safety Service (NOHSS) and Mediation Service, both attaining certification in 2014. Subsequently, nine additional core business areas achieved compliance with ISO 9001:2008 standards in the same year, followed by the certification of the Labour Standards Services and the

National Employment Centre (NEC) in 2015. These certifications marked a significant step in the ministry's operational reform efforts by embedding internationally recognized quality management practices across key service areas.

Focus

The ISO 9001 initiative was to implement a structured Quality Management System (QMS) that would standardize operations, improve service delivery, and support workforce optimization. Through internal audits and certification, the ministry identified inefficiencies, streamlined workflows, and reduced bureaucratic redundancies. Uniform service protocols were established and the introduction of customer feedback mechanisms promoted accountability and continuous improvement.

Actors

Multiple key stakeholders participated in the ISO 9001 certification process, each fulfilling distinct roles:

- Ministry leadership and senior officials provided strategic oversight and ensured alignment with broader governmental reform policies

- The ISO 9001 Implementation Team played a crucial role in carrying out internal audits, refining processes, and preparing for certification

- The APO contributed technical expertise and guidance, supporting the ministry in adopting best practices in quality management

- UKAS served as the certification authority, validating compliance with ISO 9001 standards

- MEPWR employees were actively engaged in implementing process standardization and quality management practices

- Businesses, employers, and workers benefited from the improved efficiency and responsiveness of ministry services

Devolution and Digitalization

Locus

The Devolution and Digitalization initiative was implemented across MEPWR headquarters and its divisional offices, with a particular emphasis on two key operational areas: HR functions (encompassing recruitment and salary management) and compliance (including workplace inspection services). The introduction of digital tools and decentralized decision-making mechanisms significantly transformed how the ministry conducted its operations across multiple administrative and enforcement units.

Focus

The focus of the initiative was twofold. The devolution component specifically targeted HR functions aimed to empower MEPWR with greater autonomy in workforce planning and recruitment, ensuring that personnel were aligned with institutional needs. By decentralizing these functions, the ministry was able to address critical skill gaps more effectively and ensure that recruitment processes were responsive to operational requirements. This restructuring effort contributed to the broader rightsizing agenda by optimizing human capital allocation and reducing bureaucratic inefficiencies.

Actors

Implementation involved in the Devolution and Digitalization initiative included various institutional and external stakeholders. They include:

- Ministry leadership and the HR Division personnel who were responsible for implementing devolution by restructuring recruitment and salary management functions

- The government of Fiji played a supporting role by aligning the ministry's digital transformation with national policy objectives

- IT and digital transformation teams developed and deployed the necessary technological infrastructure, ensuring the effective implementation of digital tools

- Labor inspectors and compliance officers were the primary users of the new digital platforms, utilizing them to conduct workplace inspections and enforce labor regulations efficiently

- Businesses, employers, and workers benefited from improved access to digital compliance systems, faster service delivery, and increased regulatory transparency

Outcomes

By integrating devolution with digital transformation, MEPWR advanced its rightsizing and restructuring objectives. The devolution of HR functions ensured that recruitment and salary management were tailored to operational demands, which reduced administrative delays and improved workforce deployment. Meanwhile, the digitalization of compliance and inspection services minimized manual processes, enhanced service accessibility, and reinforced transparency in regulatory enforcement.

Civil Service Salary Review

Locus

The Civil Service Salary Review encompassed Fiji's public sector workforce with direct implications for MEPWR's salary structure. Prior to the review, civil service compensation frameworks lacked alignment with market salary rates, leading to difficulties in attracting and retaining professionals with specialized expertise. The salary review process introduced a restructured pay system with 15 salary bands, designed to reflect job complexity, required competencies, and market competitiveness.

Focus

The salary review focused on enhancing remuneration structures to attract and retain skilled professionals while ensuring fair and competitive compensation for public servants. Within MEPWR, specific roles necessitated expertise in employment law, productivity enhancement, labor market research, and occupational health and safety. Competitive salaries were essential to retain experienced personnel and recruit specialists who could contribute to evidence-based policymaking and efficient service delivery. The revised pay system aligned compensation with the demands of each role, reducing turnover and improving workforce stability.

Actors

The salary review implementation process involved several key institutional stakeholders, including:

- The government of Fiji established the overarching policy direction for the reform, ensuring that salary adjustments supported broader economic and labor market objectives

- The Public Service Commission played a regulatory role in ensuring the revised salary structure was equitably implemented across ministries

- The Ministry of Economy was responsible for conducting financial assessments and allocating resources for salary adjustments

- Within MEPWR specifically, senior officials and HR specialists oversaw the integration of the new salary framework, ensuring alignment with workforce planning and recruitment needs

Outcomes

By restructuring its salary framework, MEPWR advanced its rightsizing agenda by ensuring that compensation levels reflected the actual demands and expertise required for each role, thereby optimizing workforce efficiency. The salary review also contributed to restructuring efforts by enabling MEPWR to realign job classifications, streamline career progression pathways, and establish a sustainable and equitable pay structure.

Success and Failure Cases of Rightsizing: Key Success Factors and Key Failure Factors

An analysis of MEPWR's rightsizing and restructuring initiatives reveals mixed outcomes of successes and failures. While some efforts have led to measurable improvements in efficiency, service delivery, and governance, others have encountered significant barriers that have hindered their long-term sustainability and impact.

Success Cases: Key Success Factors

i)   **ISO 9001:2008 certification**

One of the most prominent success cases for MEPWR was its attainment of ISO 9001:2008 certification for nine of its core business functions. This milestone was a critical component of the ministry's broader operational reform agenda, aimed at enhancing efficiency, eliminating redundancies, and improving service delivery. A crucial factor in the success of this initiative was the active involvement and support of employees. By engaging employees in the planning and execution phases, the ministry fostered a sense of ownership and commitment, which contributed to the successful implementation of the quality management framework. The certification aided in establishing standardized processes, improving accountability, and instilling a culture of continuous improvement within the ministry's operations.

ii)   **Devolution of HR functions**

The reform strategy led by the Civil Service Reform Management on devolution was another significant success. It played a pivotal role in transferring core HR functions, including recruitment and salary management, directly to MEPWR. This strategic shift granted the ministry greater autonomy in managing its workforce, enabling it to address critical skill gaps, align human resources with strategic priorities, and improve operational efficiency. By having direct control over staffing levels and recruitment processes, MEPWR was able to streamline hiring procedures, ensure better alignment with its mandates, and strengthen performance management. This was a crucial step in reinforcing the ministry's operational capacity while aligning with broader government civil service reforms focused on decentralization and improved service delivery.

iii)   **Service digitization**

MEPWR made significant strides in digitizing its services to improve accessibility and efficiency. One of the most impactful initiatives was the digitization of the Occupational Health and Safety (OHS) - General Workplace Inspection process. Integrated into the BusinessNow Fiji platform, this transformation significantly reduced processing times and improved user accessibility. The digital system allowed businesses and the public to engage seamlessly with government services, reducing administrative burdens and enhancing compliance with workplace safety regulations. The streamlined digital workflow freed up ministry resources, enabling a stronger focus on workplace compliance monitoring and policy development. This initiative represented a broader push toward modernization, aligning MEPWR's processes with international best practices in e-governance.

Failure Cases: Key Challenges and Limitations

Despite these successes, several initiatives encountered challenges that limited their long-term impact.

i)   **Lapse in ISO 9001:2008 certification**

Although achieving ISO 9001:2008 certification initially marked a major step forward in embedding quality management principles within MEPWR's operations, the certification lapsed during the COVID-19 pandemic due to budgetary constraints. The financial pressures and operational disruptions caused by the pandemic prevented the ministry from securing

recertification, leading to a gradual erosion of the momentum built around quality management. While many of the quality standards introduced during the certification process continue to be practiced, the lack of formal recertification has weakened institutional commitment to continuous quality improvement. The absence of a renewed certification diminishes external validation of the ministry's operational standards and raises concerns about its ability to consistently uphold internationally recognized quality management principles under fiscal constraints.

ii)   **Incomplete digitization and continued reliance on manual systems**

While the digitization of OHS inspections and the Paperless Labour Inspection services has marked progress in modernizing MEPWR's service delivery, the incomplete rollout of digital reforms has created inefficiencies. A significant portion of the ministry's core services, such as client registration for local formal employment and reporting mechanisms, still rely on manual, paper-based processes. This continued reliance on outdated systems contributes to slow service delivery, increased administrative burdens, and lacks real-time data in those areas for informed decision-making. The fragmented approach to digital transformation has led to operational inconsistencies, with some services benefiting from automation while others continuing to operate at a diminished capacity, lacking the efficiency, accessibility, and responsiveness of their digitized counterparts. The ministry's failure to fully recognize the urgency and transformative potential of the digital era and the delay in adopting a comprehensive, ministry-wide strategy within the past decade has significantly hindered efforts to modernize operations, enhance service delivery, and strengthen stakeholder engagement.

iii)   **Budgetary and institutional constraints affecting reform sustainability**

A recurring challenge across MEPWR's reform initiatives has been financial sustainability. The ministry's operational improvements, including digitization and ISO certification, require continuous investment in technology, training, and capacity-building. However, budgetary limitations, especially during economic downturns and postpandemic recovery phases, have constrained the ministry's ability to sustain these reforms. Institutional inertia and competing policy priorities have also contributed to delays in reform implementation. Without a long-term financial and strategic commitment, there is a risk that initial successes in efficiency and service delivery improvements will gradually erode due to a lack of resources and policy support.

Recommendations and Conclusion

Based on the analysis of current organizational dynamics and evolving demands of the ministry, several key recommendations are proposed based on key challenges and limitations that have diminished the long-term impact of some initiatives. These recommendations aim to align and optimize service delivery with strategic priorities while managing resources efficiently.

i)   **Strengthening quality management through recertification**

To ensure sustained adherence to international quality standards, MEPWR should prioritize the reestablishment of ISO certification. This requires a structured approach that includes dedicated budget allocations, systematic internal audits, and continuous training programs for staff. Embedding ISO principles into routine operations through well-defined performance evaluation frameworks will reinforce a culture of excellence, even during fiscal constraints. Establishing a dedicated quality management task force can further institutionalize best practices and ensure long-term compliance with ISO standards.

ii)   **Full-scale digital transformation**

To maximize efficiency and enhance service delivery, MEPWR must implement a holistic digital transformation strategy. This should encompass the digitalization of all services supported by

modern IT infrastructure. Interoperability across digital services must be ensured to facilitate seamless information flow and operational coherence. Strengthening cybersecurity measures and data governance frameworks will further enhance digital reliability and stakeholder trust. By fully digitizing administrative processes, MEPWR can improve service accessibility, data-driven decision-making, and overall operational agility.

iii)   Sustainable financial planning for reform continuity

To mitigate budgetary constraints, MEPWR should explore alternative funding mechanisms, such as public-private partnerships and international donor assistance. Establishing a reform sustainability fund dedicated to long-term operational improvements can help safeguard against financial disruptions. Additionally, embedding cost-effective technologies and optimizing resource allocation strategies will enhance the ministry's financial resilience, ensuring sustained progress in rightsizing and restructuring efforts.

iv)   Strategic workforce planning and modernization

A comprehensive review of the ministry's workforce structure is necessary to align roles and responsibilities with contemporary labor market demands. This entails conducting an in-depth job role analysis, revising outdated descriptions, and implementing a dynamic workforce planning model. Continuous professional development programs should be introduced to equip employees with the necessary skills to navigate evolving regulatory and technological landscapes. Additionally, fostering adaptability through targeted reskilling initiatives will enhance MEPWR's ability to respond proactively to labor market shifts.

In conclusion, the experiences of rightsizing and restructuring within MEPWR highlight the importance of sustained commitment, strategic agility, and financial resilience. By addressing identified challenges through targeted policy interventions and institutional reforms, MEPWR can build a more responsive and efficient governance framework. Moving forward, a balanced approach that integrates policy consistency, adaptive workforce planning, and technological modernization will be crucial to ensuring long-term success in rightsizing initiatives.

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CHAPTER 3: MALAYSIA

GOVERNMENT RIGHTSIZING AND RESTRUCTURING IN MALAYSIA - ASSESSING FOUR DECADES OF PUBLIC SECTOR REFORM (1981–2024)

Abstract

Government efficiency stands as a crucial pillar of public administration as it directly influences the delivery of vital services to citizens and the prudent management of taxpayer funds. An efficient government ensures that public resources are allocated strategically, public expenditures are cost-effective, and service delivery is both timely and of high quality. The overall efficacy of government institutions is a key determinant of economic growth and national development. One of the most impactful strategies for enhancing bureaucratic efficiency is government rightsizing, a process that involves optimizing the size and structure of the public sector to align with national objectives and the evolving needs of the population. Government rightsizing, often equated with public sector downsizing, workforce rationalization, or structural reorganization, focuses on improving operational performance, eliminating redundancy, and ensuring fiscal sustainability. In tandem, restructuring initiatives play a critical role in streamlining administrative processes, reducing bureaucratic bottlenecks, and contributing to a more agile and responsive governance framework.

In Malaysia, the impetus for rightsizing and restructuring has been driven by the need to maintain economic resilience, enhance public sector productivity, and improve service delivery. Over the past four decades, successive administrations have implemented various initiatives to optimize government functions while adapting to economic fluctuations, global financial crises, and domestic policy shifts. This report examines key government rightsizing and restructuring programs from 1981 to 2024, covering the leadership of Prime Ministers Mahathir Mohamad (1981–2003, 2018–20), Abdullah Ahmad Badawi (2003–09), Najib Razak (2009–18), Muhyiddin Yassin (2020–21), Ismail Sabri Yaakob (2021–22), and Anwar Ibrahim (2022–present). By analyzing policy shifts across these administrations, the effectiveness of different strategies in achieving bureaucratic efficiency are assessed.

This study aims to answer three fundamental questions regarding the impact of rightsizing and restructuring on Malaysia's economic performance: (i) How does public sector efficiency contribute to economic growth; (ii) What is the optimal size of government that maximizes economic growth?; and (iii) At what point does government size become a hindrance to economic performance? The findings indicate that for approximately three-quarters of the period between 1982 and 2023, the Malaysian public sector operated with relative efficiency. However, inefficiencies were most pronounced during periods of economic downturn, particularly the Commodity Price Crisis (1985–86), the Global Financial Crisis (2008–09), and the European Sovereign Debt Crisis (2010–12). These crises necessitated government intervention through economic stimulus packages, which, while stabilizing the economy, also led to increased government expenditure growth relative to GDP expansion.

By evaluating the successes and challenges of past and present rightsizing efforts, this report provides critical insights into Malaysia's ongoing journey toward a more effective and resilient public sector.

The findings offer policy recommendations on achieving an optimal government structure that enhances economic growth while maintaining fiscal discipline and service efficiency.

Introduction

The contribution of the public sector, or government sector, to promoting economic development within a country has served as a topic of discussion among economists and policymakers for a considerable period of time. Advocates assert that deliberate government interventions and investments have the potential to invigorate economic activity, tackle social challenges, and foster sustainable progress. However, opponents argue that excessive government intervention may result in inefficiencies and impede the economic development of market dynamics (Osemeke, 2011). The public sector is widely recognized for its potential to enhance economic growth through multiple means, such as preserving macroeconomic stability, designing tax and benefit frameworks that encourage job creation, and channeling public funds into growth-oriented sectors (Lamo & Strauch, 2002). Furthermore, the public sector can bolster economic growth by facilitating inclusive development, which can be achieved by implementing policies and programs that promote the engagement of marginalized groups. By doing so, the public sector can contribute to the reduction of income inequality, enhance access to essential services, and generate greater prospects for economic progress.

However, governments worldwide are facing increasing pressure to enhance the effectiveness and clarity of their operations. An essential element in improving the delivery of public services is tackling the obstacles encountered within the bureaucracy itself. The persistent challenge of bureaucratic inefficiency in the public sector has impeded the effective provision of government services and the judicious use of public resources. Citizens, as devoted public servants, are increasingly demanding innovative, responsive, and high-quality public services that effectively address their needs. Ensuring accountability and transparency in the public sector is essential for fostering trust, mitigating corruption, and enhancing overall governance. Public sector accounting standards, including financial management systems, reporting mechanisms, and auditing procedures, serve to promote accountability and transparency.

Government efficiency serves as a vital component of public administration as it directly impacts the provision of essential services to residents and the efficient use of taxpayer dollars. Government efficiency may be assessed by several criteria, including the cost-effectiveness of public expenditure, the promptness and quality of public services, and the overall efficacy of government institutions. A crucial factor in government efficiency is the distribution of public resources. When deciding which public services to provide, governments must carefully consider the needs and desires of many stakeholders, such as residents, businesses, and interest groups. Inefficiency may occur when governments fail to prioritize the optimal combination of collective services that offer the greatest benefit to society or when they deliver these services with less efficiency than they are capable of providing.

One effective method for improving government efficiency is by implementing rightsizing, which entails optimizing the size and composition of the public sector to align with government objectives and the requirements of the people. Government rightsizing, sometimes referred to as public sector downsizing or workforce rationalization, is a strategic approach used by governments to optimize the size and structure of their public sector organizations. This approach entails the deliberate reduction of government personnel, simplify administrative procedures, and redistribute resources to improve the efficiency and effectiveness of public service delivery (Kemp, 1985).

Government sector rightsizing may include many tactics, including streamlining bureaucratic hierarchies, merging agencies, and subcontracting nonessential tasks to private enterprises or nonprofit entities. Rightsizing involves adjusting the size and structure of the public sector to align with the government's goals and the requirements of the people. This may result in more effective resource

utilization, better service delivery, and increased public confidence (Chtioui, 2019; Raudeliuniene & Meidute-Kavaliauskiene, 2014).

The technique of government rightsizing, which involves simplifying and optimizing the number and structure of governmental agencies and departments, has drawn growing attention and sparked controversy, particularly in developing nations. Advocates assert that this approach can improve government efficiency and responsiveness while critics emphasize the potential risks and challenges associated with such transformation (Palanithurai, 2007; Singh, 2016; Dzakaklo et al., 2023).

In the Malaysian context, rightsizing and restructuring are regarded as critical strategies for improving the efficiency, effectiveness, and productivity of public sector operations (Rasu, 2020; Taib & Mat, 1992; Siddiquee, 2006). These initiatives are designed to optimize workforce size, streamline administrative processes, and elevate organizational performance in accordance to the country's development goals and evolving socioeconomic demands. While rightsizing focuses on optimizing human resources by addressing redundancies and aligning staffing levels with strategic priorities, restructuring entails reorganizing internal frameworks, consolidating overlapping functions, and integrating technological solutions for more streamlined and responsive public sector operations.

The imperatives for rightsizing and restructuring in Malaysia are driven by the need to ensure economic sustainability and improve public service delivery (Siddiquee, 2002). With fiscal constraints and escalating public debt, the government is under mounting pressure to manage operating expenditures more effectively. Rightsizing allows resources to be allocated more efficiently while restructuring eliminates duplication and low-impact programs, thereby enabling the public sector to function with greater efficacy. Moreover, these reforms are crucial for aligning administrative functions with broader national development goals, such as those outlined in the Twelfth Malaysia Plan (2021–25) and the Shared Prosperity Vision 2030, both of which emphasize equitable economic growth and modernization.

A critical driver of these reforms is the growing demand for better public service delivery. Bureaucratic inefficiencies, such as redundant processes and delays, often frustrate citizens and businesses. Through the restructuring of public agencies, the government seeks to establish service models that are more responsive and citizen-centric, leveraging digital tools to deliver faster, more transparent, and accessible solutions. Additionally, the rapid advancement of technology under the Fourth Industrial Revolution (4IR) has heightened the need for a tech-savvy public sector (Jabatan Perkhidmatan Awam (JPA), 2018). Rightsizing ensures that the workforce is adequately equipped with the relevant skills while restructuring integrates modern tools, like AI and big data analytics, to improve decision-making and efficiency (Siddiquee, 2006; Kassim, 2022).

Reducing bureaucratic red tape and strengthening global competitiveness are also key imperatives. The existence of overlapping functions and redundant agencies create inefficiencies that can hamper investment and the ease of doing business (Yeoh, 2017). Through the consolidation of agencies and the streamlining of processes, restructuring efforts simplify governance, reduce operational bottlenecks, and reinforce investor confidence. These measures are crucial for Malaysia to maintain its position as a regional hub for trade and investment and to achieve its aspirations of becoming a high-income economy.

However, implementing these reforms comes with challenges (Yaakob et al., 2012). Rightsizing often involves workforce reductions, which can lead to resistance from employees and unions as well as public backlash. Restructuring, on the other hand, requires careful coordination across multiple agencies to ensure alignment of objectives and minimize disruptions to service delivery. Moreover, balancing the short-term costs, such as separation schemes or digital system upgrades, with long-term benefits is also a significant hurdle, especially given the country's fiscal constraints (Rasu, 2020).

Rightsizing Initiatives in the Malaysian Public Sector

In Malaysia, "rightsizing" the public sector involves fine-tuning the government workforce to improve its size, efficiency, and overall effectiveness. The country's civil service, considered one of the largest in the world relative to its population, has prompted ongoing concerns about its sustainability, operational efficiency, and the financial burden it places on the national budget. Rightsizing, in this context, aims to streamline the civil service to better align with the country's evolving needs, improve productivity, and reduce unnecessary expenditures. The government has been exploring rightsizing as a strategy to improve performance, reduce redundancy, and align the civil service with modern governance demands (JPA, 2019).

Several structural and operational challenges within Malaysia's public sector have driven the need for rightsizing initiatives. Numerous researchers have conducted studies to track the development of governmental programs and initiatives aimed as reforming and rightsizing the public sector from the 1960s to 2020s. A good coverage on these reforms and initiative, designed to uplift the effectiveness and efficiency of the public sector, can be found in the works of Iyer (2011), Siddiquee (2002, 2010, 2014a, 2014b), Siddiquee and Mohamed (2007), Siddiquee and Zafarullah (2004), Siddiquee et al. (2017), Somogyi (1991), Taib and Mat (1992), Tjiptoherijanto (2012), Xavier et al. (2019), and Yeoh (2017). In addition, the Malaysian government has clearly laid out its programs and initiatives in their Five-Year Malaysia Plans (JPA, 2019; Government of Malaysia, 2001, 2006) to reform the public sector.

To this end, the Malaysian government has introduced a number of initiatives aimed at rightsizing and reforming the public sector. This is with the goal to boost efficiency, eliminate redundancies, and make the best use of available resources. Malaysia's public sector modernization has largely focused on improving service outreach and quality, with limited rightsizing initiatives due to reliance on the public sector for economic activities. Table 3.1 outlines a list of programs and initiatives undertaken since the 1980s to reform and rightsize the public sector for improved efficiency. Further details of programs and initiatives and strategies related to rightsizing and restructuring are further elaborated in government documents, such as various Government of Malaysia (2001, 2006, 2011, 2018, 2021, 2023) and JPA annual reports.

TABLE 3.1

PROGRAMS AND INITIATIVES ENHANCING PUBLIC SECTOR EFFICIENCY IN MALAYSIA BETWEEN 1980–2024

Year	Reform/Programs/Initiatives	Purpose/Description
1982	Look East Policy	To encourage Malaysians to follow strong ethical standards, high productivity behaviors, and good management principles and practices of the Japanese and South Koreans.
1983	Establishment of Malaysia Incorporated Policy	To create collaborative relationships between the private and public sectors to achieve development goals and collectively enhance the nation's social, administrative, and economic landscape.
1983	Quality Control Circles (QCC)	To cultivate a performance-driven, customer-focused work culture that aligns with national goals for a more efficient, transparent, and responsive public administration.
1985	Guidelines on Privatization	To foster competition, enhance efficiency, and improve productivity in service delivery while reducing the public sector's scope and size.
1987	Micro-Accounting System	To track the cost data of key outputs from different agencies to enhance accountability and optimize financial resource utilization.
1990	Modified Budgeting System	To ensure greater public accountability in financial management by modifying the performance budgeting system (PPBS).
1991	Productivity Improvement Initiatives	To embed a culture of quality and productivity within the public service.
1991	Privatization Master Plan (PMP)	To enhance public sector efficiency, reduce government financial burdens, and foster private sector participation

Year	Reform/Programs/Initiatives	Purpose/Description
1992	New Remuneration System (NRS)	To foster meritocracy within the public service by establishing a new pay plan that directly connects compensation to performance. The NRS implemented a Matrix Salary Schedule (MSS), superseding the previous linear salary scale.
1992	Total Quality Management (TQM)	To improve the quality and performance of public services by establishing a core reform program that lays the groundwork for cultivating and strengthening a quality culture within the public sector.
1993	Introduction of New Performance Appraisal System (NPAS)	To implement a mechanism that offers a more systematic and balanced evaluation of employee performance based on established targets.
1993	Clients' Charter	To deliver services and output that meet established quality standards and align with customer expectations.
1994	Public Service Network (PSN)	To provide online access to counter services for the public at all post offices nationwide.
1996	ISO 9000	To implement a quality improvement program that mandates ISO certification for all public agencies.
1999	Benchmarking	To drive a continuous cycle of improvement within public agencies by mandating the ongoing identification, learning, adaptation, and implementation of best practices relevant to their work.
2002	Malaysian Remuneration System (SSM)	To address the issues inherent in the NRS and increase the satisfaction of public officials by providing better salaries, enhanced promotion opportunities, and improved service conditions
2002	New Performance Appraisal System	To establish the Competency Level Assessment (PTK) as the new system for evaluating the performance of civil servants.
2005	Human Resource Management Information System (HRMIS)	To improve governance and service delivery by modernizing and enhancing the efficiency of human resource management across the public sector.
2007	Treasury Strategic Results Areas & Key Performance Indicators	To implement a Treasury initiative mandating that public agencies define strategic result areas and develop indicators to assess the outcomes of their operations within those key areas.
2007	Auditor General's Star Rating System on Financial Management	To enhance public sector financial accountability and efficiency in Malaysia through the implementation of an annual star-ranking system for ministries' financial management.
2007	MAMPU's Star Rating System on Public Management	To improve public service delivery and administrative efficiency by implementing a star rating system that evaluates the overall management performance of Malaysian government ministries and agencies.
2008	Adoption of "One Service, One Delivery, No Wrong Door" Policy	To streamline citizen access to government services through a unified and seamless delivery system, eliminating jurisdictional barriers.
2009	Key Performance Indicators (KPIs)	To drive targeted improvements in public sector service delivery by establishing clear, measurable KPIs for accountability and efficiency.
2009	KPIs for Ministers and Ministries	To monitor and improve governmental performance.
2009	KPIs for Top Executives	To ensure alignment of top executive performance in the public sector, GLCs, and public agencies with national objectives through yearly evaluations focused on national competitiveness, governance, leadership, and service delivery.
2009	Government Transformation Programme (GTP)	To enhance ministerial accountability and improve public service delivery by implementing a program with measurable targets across seven key result areas.
2009	Establishment of Performance Management and Delivery Unit (PEMANDU)	To ensure the effective implementation and delivery of National Key Result Areas (NKRAs) under the GTP through target definition, performance tracking, and strategic mechanisms.
2010	A 360°C Evaluation System	To evaluate the performance of Secretaries General, Heads of Service, and Directors-General of central agencies based on established Key Performance Indicators.
2010	The Human Resource Management Strategic Direction Framework for the Public Sector	A comprehensive guidance for the public service agencies to plan and develop the organization strategic plan in line with the national agenda.

Year	Reform/Programs/Initiatives	Purpose/Description
2010	Subsidy Rationalization Program (SRP)	To reduce fiscal dependency on subsidies, promote market-driven pricing mechanisms, and improve resource allocation to ensure that subsidies benefited those who needed them most.
2012	Urban Transformation Centers (UTC)	One of the initiatives under National Blue Ocean Strategy (NBOS) in centralizing and improving counter services.
2012	Implementation of the Potential and Competency Integrated Program (PROSPEK), and Mind Transformation Program (PTM)	To enhance the quality, competency, and mindset of the public sector workforce, PROSPEK focuses on identifying, nurturing, and developing high-potential talent within the civil service. It is designed to systematically enhance competencies, leadership capabilities, and career progression by integrating structured assessments, training, and development programs. PTM, is aimed at shaping a progressive, ethical, and performance-oriented mindset among public servants. PTM supports Malaysia's goal of a more dynamic, accountable, and efficient public administration.
2012	Formulation of the PSD Strategic Plan 2011–2015	Aimed at strengthening the public sector's effectiveness, efficiency, and responsiveness in delivering high-quality services. It was designed to align with the broader national development agenda, particularly supporting economic transformation, good governance, and human capital development.
2013	Public Service Department Transformation Framework (KTJPA)	To develop a cost-effective framework tailored to governmental needs, designed to enhance civil servant competency, performance, productivity, and innovation, thereby improving public service delivery efficiency and effectiveness.
2014	Flexible Work Arrangement (FWA)	FWA is introduced to realize a more flexible public service that aligns with current human resource management practices. FWA encompasses various human resource practices, such as flexible working hours, telecommuting, compressed workweeks, part-time work, various leave benefits, and more.
2014	Work Life Balance (WLB)	To achieve enhanced job satisfaction, reduced officer tardiness, more efficient attendance management, and decreased traffic congestion by fostering a healthy work-life balance.
2014	MyGovernment Portal	To enhance the delivery of public services, improve citizen satisfaction, and create a more transparent and accountable government in Malaysia.
2015	Voluntary Separation Scheme (VSS) & Exit Policy (Public Service Circular No. 7/2015)	VSS is to enhance workforce efficiency, optimize public sector management, and ensure that government agencies and organizations maintain a high-performance work environment. The Exit Policy is designed to address underperformance and redundancy within the civil service by providing a structured mechanism to manage low-performing employees while ensuring fairness and due process. It encourages a performance-driven culture, where employees who fail to meet required standards may be transitioned out of service with appropriate support measures.
2016–2020	Public Service Delivery Transformation	To enhance public service efficiency and productivity by transforming service delivery to be more citizen-centered, aligning with the Eleventh Malaysia Plan (2016-2020) objectives.
2016–2020	Eleventh Malaysia Plan (2016–2020)	Focus Area B: Rationalizing Public Sector Institutions for Greater Productivity and Performance, under: (i) Strategy B2 - Rightsizing the public sector for better productivity and capabilities through restructuring and delayering, multiskilling in the public service; (ii) Strategy B3 - Introducing exit policy for underperformers to create greater accountability and improve overall performance within the public service.
2016	Public Sector's Digital Government Competency and Capability Readiness (DGCCR) initiative	To equip civil servants with the necessary knowledge and skills for digital competency, supporting the government's digital aspirations by promoting inclusive access to online services through the DGCCR initiative.
2016	New HRMIS	To enhance human resource management's efficiency, transparency, and integration across government agencies. It is a centralized digital platform that streamlines various HR functions, including recruitment, performance evaluation, payroll, leave management, and career development. The primary goal of the system is to improve decision-making through real-time data analytics, ensuring a more strategic approach to workforce planning and management.
2017	National Transformation 2050 (TN50)	Preparing policies and national strategies, implementation plans and monitoring aspects based on the opinions and expectations of various segments of society in achieving TN50's goal for the next 30 years.
2019	Public Service Rightsizing Initiative	To improve public sector productivity by strategically managing financial resources, reducing unnecessary expenditure, and maximizing the effectiveness of human resources.

Year	Reform/Programs/Initiatives	Purpose/Description
2019	Rationalization Review of Ministry Mapping (RPPK) Initiative	To achieve systemic enhancement of public service efficiency by conducting a review of its organizational structure.
2019	Public Service Human Resource Development Policy	To cultivate a public service workforce characterized by High Order Thinking Skills (HOTS), forward-thinking agility, digital proficiency, creative problem-solving, and a strong foundation of ethical values and professional conduct, thereby benefiting both the organization and the career development of civil servants.
2021–2025	Twelfth Malaysia Plan (2021–2025)	Priority Area A: Developing High-Performing Civil Service, under Strategy B1 – Fostering Efficiency in Public Service Delivery, evaluated through the Malaysian Government Performance Index (MyGPI).
2021–2025	Mid-Term Review Twelfth Malaysia Plan (2021–2025)	Strategy D2: Redesigning Public Service. To enhance public service delivery by improving efficiency, reducing cost, and increasing customer satisfaction.
2022	The Public Service Reform Action Plan	To promote effectiveness and efficiency in public service delivery by identifying key factors that can lead to high organizational performance.
2022	Public Sector Governance Act and Integrity Plan	A comprehensive guide for corruption-free governance across public and private sectors.
2022	The Human Resource Development Policy (DPSM)	To develop a competent public service workforce that is both responsive to current needs and prepared for future challenges.
2023	Special Task Force on Agency Reform (STAR)	Aimed at reducing bureaucratic red tape in government agencies, thereby enhancing efficiency in the public sector.
2024	Implementation of Public Service Remuneration System (SSPA) (Service Circular No. 01.2024)	To replace the existing SSM and establish a fair, competitive, and performance-driven compensation structure for civil servants. The system is designed to enhance salary structures, benefits, and career progression while ensuring that public sector wages remain equitable and aligned with economic conditions. SSPA supports public sector modernization and strengthens Malaysia's commitment to building a high-performing, transparent, and people-centric government.

Source: JPA (2009–2010, 2012–2022); Government of Malaysia (2011, 2018, 2021, 2023); Siddiquee (2014b); Siddiquee and Mohamed (2007). All service circulars are available only in the Malay language and can be found under the name Pekeliling Perkhidmatan (Service Circular.

Note: The program/strategy/initiative names in this table is in accordance with the actual program name introduced by the government of Malaysia. If the program name is not available in English, where applicable, the program names are translated from the Malay language to the English language.

Ho (2001, 2002) notes that Mahathir's Malaysia Incorporated Policy resulted in a one-third reduction of the civil service, largely by privatizing agencies deemed inefficient or ineffective. Sarji (1996) further reports that Malaysia's privatization program trimmed the public sector by transferring 105,000 civil servants to private employment, relieving the government of a significant financial burden and saving RM120 billion in operating and capital expenditures. Overall, 570 agencies were reviewed and restructured during this period, leading to a considerable cut in the number of public-sector positions.

In 2009, the Malaysian government undertook a notable restructuring effort by dissolving both the Ministry of Entrepreneur Development and Cooperation and the Ministry of Unity, Culture, and Heritage. Concurrently, it merged the functions of the Ministry of Information, the Ministry of Culture, Arts, and Heritage, and the Communications Division of the Ministry of Energy, Water, and Communications. According to JPA (2009), this consolidation was intended to improve government service delivery and restructure public service functions for greater efficiency and effectiveness.

During Najib Razak's premiership, a large-scale initiative known as the Government Transformation Programme (GTP) was introduced. Launched in 2010, the GTP established National Key Result Areas (NKRAs) to address inefficiencies, modernize the civil service, and improve public service delivery. The GTP has led to significant advancements in various sectors, particularly in public safety and anti-corruption efforts. Among its key successes was the reduction in street crime by 35% and index crime by 15%, marking the first nationwide decrease in crime rates in four years. Additionally, the program cleared a record 2,001 backlog cases involving violent crimes, which was recognized as a significant achievement. Further, the Royal Malaysian Police also succeeded, for the first time, in ranking all 753

police stations across Malaysia on their public service performance, emphasizing the shift toward a more accountable and efficient government. The program also led to the most extensive redeployment of personnel in Malaysia's history, with 14,222 officers and 7,402 back-office personnel reassigned to frontline duties, directly contributing to reducing overall crime rates.

GTP's success can be attributed to its strategic initiatives and use of data-driven performance indicators. For example, under the Fighting Corruption NKRA, significant accomplishments included the creation of the Convicted Corruption Offenders Database, which listed 284 offenders, and the launch of MyProcurement portal, which listed over 3,500 government contracts. Furthermore, efforts, such as implementing a zero-tolerance policy toward corruption and enhancing transparency in government procurement, have been crucial in improving public trust in government institutions. By introducing the Whistleblower Protection Act and expediting corruption trials, the GTP has also fostered greater accountability within government institutions. Collectively, these data-driven strategies have not only improved the efficiency and transparency of the public sector but also resulted in tangible improvements in service delivery to the Malaysian people.

Subsequent restructuring of government agencies occurred in 2000, involving the reorganization of several key institutions. Among those affected were the Federal Land Development Authority (FELDA), the Economic Planning Unit (EPU), the Kuala Lumpur City Hall (DBKL), the Ministry of Federal Territories and Urban Well-being (KWPKB), the Budget Management Division, the Ministry of Finance, Sarawak state public service, Sabah state government agencies, and the Ministry of Plantation Industries and Commodities (JPA, 2010).

From July 2013, in alignment with the implementation of Public Service Department (PSD) Transformation, the Organizational Development Division (BPO) underwent organizational structure reforms. These included: (i) a reduction of 55 positions, representing 27% of the total, from 205 to 150 posts; (ii) an annual savings of MYR1.9 million (~USD442,000) in emolument expenditures; (iii) a reduction of hierarchical levels from five to three; and (iv) the introduction of a flatter and matrix-based organizational structure (JPA, 2013). Furthermore, during the same year, BPO further strengthened government organizations by reorganizing key government bodies, including: (i) the Ministry of Finance, (ii) the Malaysian Administrative Modernization and Management Planning Unit (MAMPU), (iii) the Land Public Transport Commission (SPAD); and (iv) the National Sports Institute and Malaysia Stadium Corporation under the Ministry of Youth and Sports. It also undertook the restructuring of the Department of Social Welfare under the Ministry of Women, Family and Community Development (JPA, 2013).

Between 2016 and 2017, JPA (2018) indicated that the government undertook various steps to transform the public service, particularly by digitizing administrative processes, streamlining bureaucratic procedures, and reviewing institutional structures to improve service delivery. However, despite these efforts, the outcomes were modest due to allegations of corruption, limited transparency and accountability, inefficient resource management, and capacity constraints.

In its 2019 report, JPA laid out a series of rightsizing initiatives, outlining the methods for controlling the size of the civil service. They include: (i) privatization; (ii) redeployment; (iii) outsourcing; (iv) alternative service delivery models; (v) automation; and (vi) a responsible approach to filling vacancies based on demand. Importantly, these measures do not apply to filled positions in essential areas, such as healthcare, education, and public safety, where retiring employees are expected to be replaced. The principal objective of controlling the civil service size is to ensure the optimal use of human resources. As of 1 January 2020, the civil servant-to-population ratio in Malaysia was approximately 1:20.73.

The Mid-Term Review of the Eleventh Malaysia Plan (2016–2017) (Government of Malaysia, 2018) indicated that approximately 488 underperforming civil servants were identified via the Annual Performance Evaluation Report (KPT). They were placed under observation, and ultimately, 70 of them were dismissed to foster a high-performing, dynamic public sector. The exit policy for public servants only covers the removal of underperformers and does not extend to disciplinary cases.

The year 2024 marked a significant milestone for Malaysian civil servants under the premiership of Anwar Ibrahim. In that year, the government introduced the Public Service Remuneration System, known as the *Sistem Saraan Perkhidmatan Awam* (SSPA) through government circular *(Pekeliling Perkhidmatan Bilangan 1 Tahun 2024)*, as part of an overhaul of the civil service compensation structure. This initiative is aligned with the government's objectives of enhancing public service delivery. One of the key goals of the SSPA is to streamline various service schemes, encompassing employment contracts, salary structures, and benefits, into a unified framework. This approach aims to increase civil servants' disposable income while reducing the fiscal burden on the government, particularly concerning pension liabilities. Furthermore, the SSPA promotes productivity growth by embedding core values like integrity, transparency, and innovation within the public sector. Additionally, it integrates technology and performance-based work culture to further enhance the quality and efficiency of public service delivery.

The SSPA offers significant benefits to public sector employees, including improved compensation packages with higher minimum starting salaries, better pay scales, and enhanced career advancement opportunities through a structured framework. This restructuring includes the recognition of new educational qualifications, such as technical and vocational training (TVET), for public service roles, thereby broadening the scope of potential candidates. In addition, the SSPA reduces bureaucracy and optimizes job classifications by consolidating and eliminating outdated service schemes. This restructuring also ensures a more equitable and competitive public service, with increased opportunities for both professionals and nonprofessionals. The introduction of minimum entry requirements, such as the Sijil Pelajaran Malaysia (SPM) level (equivalent to O Level), further strengthens access to public service, ensuring a broader, more qualified candidate pool. The SSPA plays a critical role in rightsizing the public sector through these reforms, fostering a leaner and more responsive government. By eliminating redundant positions and merging similar job functions, the government ensures that the civil service remains adaptable to evolving national priorities and continues providing high-impact public services.

Problem Identification and Assessment

Malaysia's bureaucracy ranks among the largest worldwide, housing 1.7 million civil servants for a population of 32 million, which is equivalent to 4.5% of the total population. By comparison, Singapore's civil servants comprise 1.5% of its population while both Hong Kong and Republic of China register 2.3%. Malaysia spends over RM41 billion annually to maintain its civil service (Kua, 2023).

In fact, studies indicate that Malaysia's public sector is growing larger, which could negatively impact economic, fiscal, and social responsibilities (Amran et al., 2021; Goh & Aznan, 2023). Furthermore, Bajpai (2019) from the World Bank observes that Malaysia's public sector performance, measured against OECD countries, has been in decline since 2014. While Malaysia continues to outperform many of its regional counterparts in terms of government effectiveness, its 2018 performance fell below the levels consistently recorded between 1991 and 2014. This decline is concerning, especially as Malaysia transitions from middle-income to high-income economy, given that the average performance from 1991 to 2014 was higher than in 2018, indicating an ongoing downward trend.

In addition, insights from the World Competitiveness Report 2023 published by the International Institute for Management Development (IMD, 2023) and the World Economic Forum (WEF) reveal inefficiencies in Malaysia's public sector, highlighting the need for rightsizing and restructuring. Malaysia ranked 40th out of 64 economies in the 2023 IMD World Competitiveness Report, with its government efficiency, a key subfactor, positioned at 36th, reflecting a decline compared to previous years. Persistent issues include bureaucratic inefficiencies, corruption, and weak policy execution, all of which hinder the government's ability to support competitiveness effectively.

Public finance challenges further exacerbate inefficiencies within Malaysia's public sector. Ranked 43rd in 2023, Malaysia struggles with high public sector wages and pension liabilities, both straining fiscal discipline. The institutional framework ranking of 39th underscores governance weaknesses, regulatory bottlenecks, and limited administrative transparency. Bureaucratic inefficiencies, particularly in obtaining permits and licenses, negatively impact the ease of doing business, despite Malaysia achieving a relatively stronger ranking of 30th in the area of business legislation.

Complementary insights from the WEF Global Competitiveness Index 2019, in which Malaysia ranked 29th for institutional quality, reaffirm the country's moderate governance effectiveness while simultaneously drawing attention to bureaucratic delays and cumbersome regulations. Transparency and corruption remain significant concerns, as evidenced by the 51st ranking in corruption perception and high-profile scandals like 1MDB, which eroded public trust and diverted resources from critical services.

Supporting data from Transparency International's (2020) Corruption Perceptions Index, where Malaysia was ranked 57th and the World Bank Group's (2020) Ease of Doing Business report, which placed the country at 12th in 2020, confirm public sector inefficiencies despite a favorable business environment. The findings highlight challenges, such as delays in approval of construction permits and contract enforcement. These inefficiencies, along with fiscal pressures and governance gaps, emphasize the urgency for public sector reforms.

Recognizing these multifaceted challenges, government rightsizing and restructuring have gained focus as a strategic approach to optimize the public sector's size, structure, and functionality. However, no dedicated body of literature specifically addresses the concept of "rightsizing" governments (Anderson, 2011). Instead, the existing literature identifies various related concepts that can be collectively categorized under the rightsizing framework, including retrenchment, restructuring, reorganization, reengineering, and reductions. Rightsizing, in the context of study, specifically refers to streamlining bureaucratic hierarchies, consolidating overlapping agencies, and outsourcing nonessential services to private enterprises or nonprofit organizations, instead of merely cutting back staffing. On the other hand, restructuring seeks to redesign organizational frameworks and operational processes to foster greater agility, adaptability, and responsiveness within the civil service.

Both rightsizing and restructuring efforts aim to eliminate inefficiencies, enhance resource utilization, and improve service delivery quality. However, their implementation must be carefully managed to avoid unintended consequences. While advocates highlight their potential to increase governmental accountability and responsiveness, critics caution against risks, such as service disruptions, job losses, and resistance from entrenched stakeholders. Therefore, policymakers must prioritize transparency, stakeholder engagement, and robust planning to ensure these initiatives achieve their intended outcomes.

Global practices and experiences demonstrate that rightsizing and restructuring are not merely cost-cutting exercises but integral components of building a more capable and adaptive public sector. Incorporating digital transformation and technology-driven solutions into restructuring efforts can enhance operational efficiency, reduce bureaucratic delays, and improve accessibility to public services. By leveraging such innovations, Malaysia's public sector can transition from traditional hierarchical models to more dynamic and citizen-centric frameworks (Rasu, 2020).

In summary, while Malaysia's public sector shows strength in certain areas, challenges related to bureaucracy, fiscal management, and governance inefficiencies continue to hinder overall competitiveness. Addressing these issues through rightsizing and restructuring is critical to improving performance and supporting Malaysia's economic growth.

This leads to the main question of this study: Given the funding and embarking on the multitude of programs and initiatives to improve the public sector, how cost-effective and efficient is government

expenditure in boosting economic growth? What is the optimal size of the government that maximizes economic output? Conversely, at what point does the size of government expenditure adversely affects economic growth due to inefficiencies in the government sector? These questions will be tackled in the subsequent segments of this report.

Public Sector Development in Malaysia

Wang (2024) highlights Malaysia's remarkable economic progress, noting an average annual growth rate of 5.9% between 1971 and 2020. Over these five decades, the country transformed into an upper-middle-income economy by 1992. This achievement was partly driven by a robust public sector that complemented private-sector efforts and helped to propel the economy forward. In Malaysia, the public sector plays a vital role in governance, economic advancement, and social welfare, providing essential services, shaping policies, regulating industries, and promoting national development through diverse initiatives.

Direct government interventions and investments through various policy tools, especially during the early stages of Malaysia's development, have charted the country's growth trajectories and momentum. These interventions have been implemented through its civil service machinery, encompassing federal and state levels (Ibrahim & Nordin, 1984). This machinery comprises a structured bureaucratic hierarchy that has evolved since Malaysia's independence in 1957, reflecting the nation's changing socioeconomic landscape and governance priorities. A structured bureaucratic hierarchy is important to effectively manage large organizations or institutions, such as the civil service. This structure defines the legitimate authority, allocation of resources, and the processes of determining how, when, where, and by whom public services are delivered (Olsen, 2006). As such, the effectiveness of the civil service bureaucracy is important in shaping a country's macroeconomic and microeconomic outcomes (Rasul et al., 2018).

Since achieving independence in 1957, Malaysia's public sector has improved significantly through comprehensive reform initiatives, especially in terms of enhancing human capital and improving service delivery quality. Key dimensions of these reform initiatives include the effective management of public sector employees, streamlining processes to reduce the service delivery response time, and privatizing selected departments and agencies to foster efficiency and innovation. Technology adoption and digital transformation have also been prioritized to provide more accessible and efficient services. These reform efforts reflect the government's strategic commitment to aligning public sector capabilities with the nation's socioeconomic goals, ensuring inclusivity and resilience in governance (Siddiquee, 2002, 2006, 2007, 2010, 2014a, 2014b).

As Malaysia's population and urbanization grew, the public sector expanded in tandem, resulting in the increasing numbers of government departments, agencies, and civil service employees to meet the rising demands for public services. However, the number of civil service employees in Malaysia has been criticized for being perceived as overly large or "bloated" (Goh, 2024; Kua, 2023; Xavier, 2019). Critics argue that a bloated public sector leads to inefficiencies and financial burdens posed by emoluments for current employees and pension obligations for retirees (Xavier, 2019). As seen in Figure 3.1, the gap between government revenue and expenditure has been widening since the 1990s, with the budget deficit accelerating more rapidly after 2000. By 2023, the ratio of government revenue to GDP and government expenditure to GDP reached 17.6% and 22.5%, respectively, as shown in Figure 3.2. Meanwhile, the budget deficit ratio to GDP increased from 1.6% in 1998 to 5.1% in 2023. Balancing the size of the civil service with its functionality remains a strategic challenge for policymakers, particularly in a country with a growing population and diverse geographical and socioeconomic contexts. Figure 3.3 shows the increasing trend in the government expenditure on operating costs, development projects, emoluments, retirement benefits, and debt service charges in Malaysia (Ahmad et al., 2019; Amran et al., 2021) which attracted concern from the public.

FIGURE 3.1

GOVERNMENT REVENUE AND EXPENDITURE BETWEEN 1970–2023
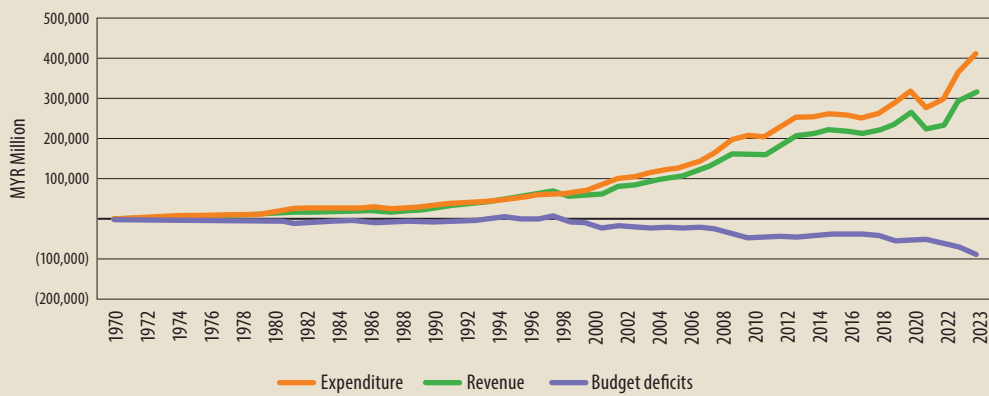
Source: Compiled from Monthly Highlights & Statistics (various issues), Bank Negara Malaysia.

FIGURE 3.2

GOVERNMENT REVENUE AND EXPENDITURE AS A PERCENTAGE OF GDP BETWEEN 1970–2023
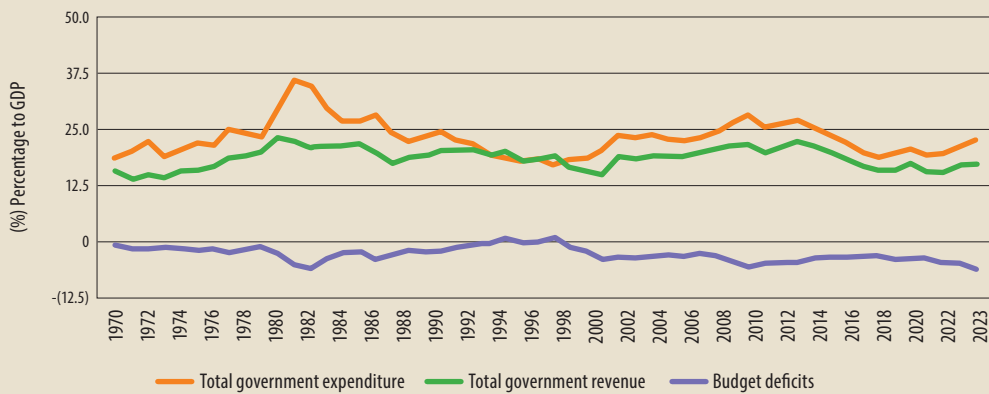
Source: Compiled from Monthly Highlights & Statistics (various issues), Bank Negara Malaysia.

FIGURE 3.3

GOVERNMENT EXPENDITURE ON OPERATING, DEVELOPMENT, EMOLUMENT, RETIREMENT, AND DEBT CHARGES BETWEEN 1970–2023
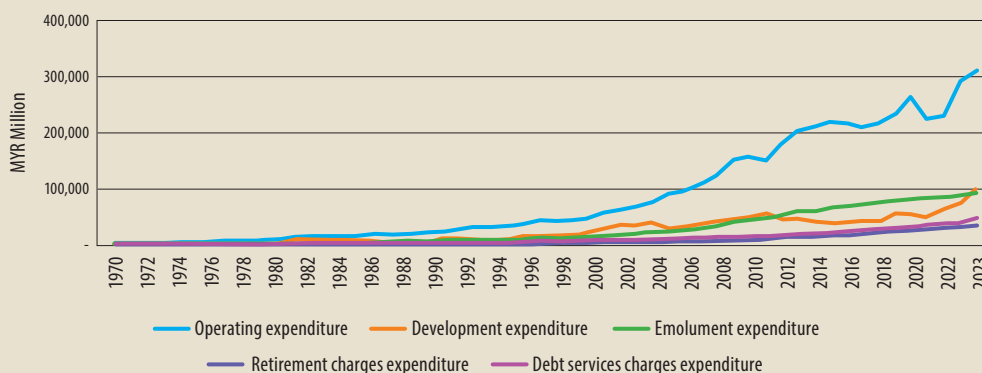
Source: Compiled from Monthly Highlights & Statistics (various issues), Bank Negara Malaysia.

Efficiency and Optimal Size of the Malaysian Public Sector: An Economic Analysis

Government efficiency refers to the ability of a government to effectively and efficiently utilize its resources to achieve its policy objectives and deliver public services to its citizens. Governments provide and finance many important services (including programs and initiatives) and functions that benefit the public, regulates the private sector, and redistributes income and wealth. Efficiency in government can be measured through various ways, including the cost-effectiveness of public spending, the timeliness and quality of public services, and the overall performance of government institutions (Di Matteo, 2013).

One key aspect of government efficiency is the allocation of public resources. Governments must balance the demands and preferences of different stakeholders, including citizens, businesses, and interest groups, when determining the mix and scope of public services to provide. Inefficiency may arise when governments fail to prioritize the most socially desirable mix of collective services or when these services are delivered using more resources than necessary.

The relationship between public sector efficiency and government rightsizing is a complex and multifaceted topic that has garnered significant attention in recent years. As governments worldwide grapple with budgetary constraints and the need to deliver services more effectively, understanding the factors that contribute to public sector efficiency has become increasingly crucial.

Scholarly literature has consistently highlighted that the size of the government or public sector is a critical factor in determining the effectiveness and efficiency of public service delivery (Selvanathan et al., 2017; Pathirane & Blades, 1982). Governments worldwide have daunting task with the challenge of striking the right balance between the size of the public sector and its ability to provide essential services to citizens (Sáez & Álvarez-García, 2006). To shed light on this issue, researchers have adopted various approaches to measure and analyze the impact of government sector efficiency on economic growth. One common approach is to examine the relationship between government spending and economic growth across different countries or regions (Sáez & Álvarez-García, 2006). Another approach is to use frontier analysis techniques, such as Data Envelopment Analysis (DEA), to estimate the efficiency of public spending in areas like health and education, and then assess the impact of this efficiency on broader economic outcomes.

The relationship between public sector efficiency and economic growth has long been a subject of intense debate and research among economists and policymakers. On one hand, proponents argue that an efficient public sector can contribute to economic growth through various channels, such as improved productivity, increased investment, mitigate externalities and monopolies that hinder growth, reduce social inequality, and stimulate aggregate demand (Mo, 2007; Barro, 1990; Myrdal, 1960; Kaldor, 1966). On the other hand, critics contend that excessive government spending and inefficient bureaucratic processes can stifle economic growth by crowding out private investment, increasing tax burden, fostering corruption, rent-seeking behavior, and reducing overall economic efficiency (Mo, 2007; King & Rebelo, 1990; Landau, 1983; Olson, 1982; Buchanan, 1980). This scenario leads to an inverted U-shape curve or suggesting a nonlinear relationship between the size of the public sector and economic growth, popularly known as the BARS curve, which is derived from the works of Barro, Armey, Rahn, and Scully.

Barro (1990) argues that government spending has a positive effect on economic growth when it is used for productive purposes, such as infrastructure, education, and public goods that enhance productivity. However, Barro also suggests that beyond a certain level of government spending, the marginal returns diminish and can turn negative. This is reflected in the inverted U-shape, where after reaching a certain threshold of government expenditure, further increases in spending may crowd out private sector activity, reduce efficiency, or lead to fiscal imbalances.

Armey (1995) introduces the concept of an inverted U-shape curve (also known as the Armey Curve) to show that there is an optimal level of government expenditure, beyond which further increases in spending become counterproductive. According to this perspective, as government expenditure increases too much, inefficiencies may arise, including resource misallocation, ineffective subsidies, and bureaucratic inefficiencies), which lead to slower economic growth.

Rahn and Fox (1996) emphasize that the impact of government spending is not only dependent on the level of expenditure but also on how well the government manages spending and how it is financed. For example, while initial spending on infrastructure and industrialization spurred growth, inefficiencies in subsequent government spending, such as subsidies targeted to certain sectors or mismanagement of public funds, could explain the downward slope of the curve beyond a certain point of government expenditure.

Scully (1994) suggests that too large a government can reduce the incentives for private investment and economic growth. According to Scully, a larger government size often leads to higher taxation, which reduces private sector investment and thus slows down economic growth. Beyond a certain level, high government spending might lead to inefficiencies in the private sector and higher taxes or debt burdens, all of which can negatively affect growth.

Modelling Public Sector Efficiency/Inefficiency and Their Optimal Size

The BARS curve is a tool used to analyze the relationship between the size of the government and economic growth, typically represented as an inverted-U curve. The size of a government is commonly measured using the ratio of government expenditure to GDP (Di Matteo, 2013). The inverted U-shape curve suggests that, at low levels of government spending, additional expenditure boosts growth by providing essential public goods and services. At high levels of government spending, excessive expenditure leads to inefficiencies, waste, and slower growth, often due to crowding out of private investment or misallocation of resources.

To assess government inefficiency using the BARS curve, this report looks for evidence that the economy is on the downward-sloping side of the curve, where increases in government spending reduce economic growth. To determine whether the economy is on the upward- or downward-sloping of the BARS curve, the following convention model is specified and estimated (Al-Abdulrazag, 2021; Jain et al., 2021; Durucan, 2022; Ahmad & Othman, 2014);

$$RGdpGro_t = \alpha + \beta_1 Exp_t + \beta_2 Exp_t^2 + \gamma_i Z_{i,t} + \varepsilon_t$$

where $RGdpGro_t$ represents the growth in real GDP; Exp_t and Exp_t^2 are government expenditure and government expenditure square, respectively. Parameters α and ε_t are the constant and error terms, respectively. The size of the government or public sector is measured using the ratio of government expenditure to GDP. The parameters β_1 and β_2 will determine the nonlinear relationship between economic growth and the government size. When $\beta_1 > 0$, $\beta_2 < 0$ and both are significant, it will have an inverted U-shape curve; however, when $\beta_1 < 0$, $\beta_2 > 0$ and both coefficients are significant, it will have a U-shape curve. The optimal size of the government is calculated as $G^* = -\beta_1/2\beta_2$. Thus any value of the size of the government exceeds G^* signifies government sector inefficiency. This implies that the government is operating beyond the optimal level that will lead to wastage and mismanagement of its resources, inefficient government operations, excessive burdens of regulatory process, bureaucratic efficiencies, and crowding-out investment (Aznan et al., 2022; Barro, 1990; Armey, 1995; Rahn & Fox, 1996; Scully, 1994).

The hypothetical inverted U-shape BARS curve is illustrated in Figure 3.4(a), where Y-axis represents Economic Growth (%) and X-axis is the ratio of Government Expenditure to GDP (%). Point A is the turning point or the optimal point that signifies the highest optimal growth rate Y*, that can be achieved at the most efficient level of government expenditure given by G*. Any level of G below G* is considered efficient while the level of government expenditure to the right of G* is deemed inefficient. This implies that the curve along A to C suggests that further increase in government expenditure to GDP ratio, economic growth will fall. On the other hand, any value of government expenditure to the left of G* suggest that increase in G until to the point A, will enhance economic growth. Therefore, any point along the curve B to A is regarded as efficient public sector.

FIGURE 3.4

EFFICIENT, INEFFICIENT, AND THE OPTIMAL POINTS IN A BARS CURVE

(a)   (b)
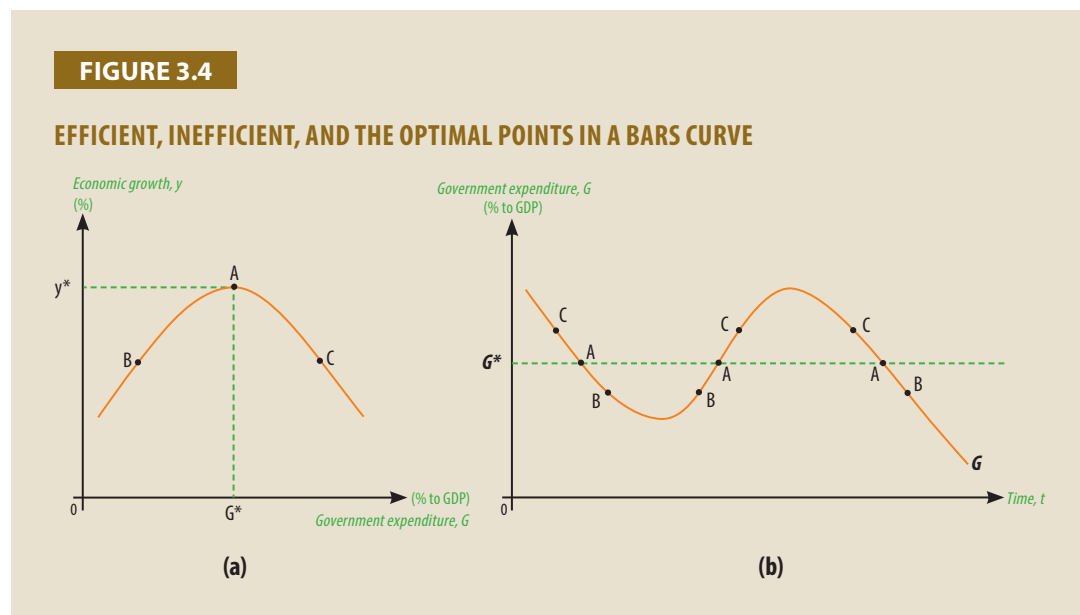
In contrast, Figure 3.4(b) demonstrates the optimal level in government expenditure (% to GDP), G* (located at point A, with maximum economic growth, y*), and the value of government expenditure G, observed over time. Any value of G that exceeds this optimal level G*, such as point C, suggest inefficiency in the public sector. Conversely, any level of government expenditure G, below this optimal level G*, such as point B, is considered an efficient public sector.

The control variable, $Z_{i,t,}$ include InitialGdp which is measured by using one-period lagged in real GDP; labor (Emp) is measured by the number of people employed, capital (CapGdpGro) is proxy using the growth in the ratio of gross fixed capital formation to GDP; Income is proxy using real GDP per capita, and Openness is measured using ratio of total trade to GDP. It is expected a *priori* that InitialGdp exhibit negative impact on economic growth; while Emp, CapGdpGro, Income, and Openness show

positive impact on economic growth, RGdpGro. Lastly, the error term ε_t, is assumed to possess a zero mean and constant variance.

Sources of Data

Annual time series data covering the period from 1982 to 2023 were used in this study. Data on real GDP, real GDP per capita, gross fixed capital formation, and total trade were obtained from the World Development Indicator (WDI), a World Bank database. In contrast, data on total employment was sourced from the Department of Statistic Malaysia (DOSM).

For the measurement of the size of the government or public sector, government expenditure was employed. In Malaysia, total government expenditure can be categorized into two parts: government operating expenditure and development expenditure. Operating expenditure includes emoluments, retirement charges, debt services charges, supplies and services, subsidies and social assistance, asset acquisition, grants and transfers, and other operating expenditures. Development expenditure, on the other hand, comprises defense and security, economic services, social services, and general administration. Expenditure on economic services includes sectors, such as agriculture and rural development, trade and industry, transport, public utilities, and other economic services. Similarly, expenditure on social services includes education, health, housing, and social and community services. All these data were extracted from various issues of the Monthly Highlights & Statistics, published by Bank Negara Malaysia (Central Bank of Malaysia).

In total, 24 categories of government expenditures, both aggregated and disaggregated expenditures, were used to proxy for the size of government sector, and their ratios to GDP were used in the analysis (Goh & Aznan, 2023; Ahmad et al., 2019; Amran et al., 2021; Hassan et al., 2022). All variables were transformed into logarithms. Table 3.2 provides the detailed definition of the variables and their sources of data.

TABLE 3.2

DEFINITION OF VARIABLES AND DATA SOURCES

Variables	Abbreviation	Definition	Data Source
Dependent variable:	RGdpGro	Annual percentage change in real gross domestic product (GDP, constant 2015) (%)	World Development Indicator
Independent variables:	GovexpGdp	Total government expenditure (% GDP)	Bank Negara Malaysia
	OeGdp	Total operating expenditure (% GDP)	Bank Negara Malaysia
	EmolGdp	Emoluments (% GDP)	Bank Negara Malaysia
	RetireGdp	Retirement charges (% GDP)	Bank Negara Malaysia
	DebtGdp	Debt services charges (% GDP)	Bank Negara Malaysia
	SupplyGdp	Supplies and services (% GDP)	Bank Negara Malaysia
	SubGdp	Subsidies and social assistance (% GDP)	Bank Negara Malaysia
	AssetGdp	Asset acquisition (% GDP)	Bank Negara Malaysia
	GrantGdp	Grants and transfers (% GDP)	Bank Negara Malaysia
	OthexpGdp	Other operating expenditure (% GDP)	Bank Negara Malaysia
	DeGdp	Total development expenditure (% GDP)	Bank Negara Malaysia
	DefenceGdp	Defense and security (% GDP)	Bank Negara Malaysia
	EconserGdp	Economic services (% GDP)	Bank Negara Malaysia
	AgricGdp	Agriculture and rural development (% GDP)	Bank Negara Malaysia
	TradeGdp	Trade and industry (% GDP)	Bank Negara Malaysia

Variables	Abbreviation	Definition	Data Source
	TransGdp	Transport (% GDP)	Bank Negara Malaysia
	PubutilGdp	Public utilities (% GDP)	Bank Negara Malaysia
	OtheconserGdp	Other economic services (% GDP)	Bank Negara Malaysia
	SocserGdp	Social services (% GDP)	Bank Negara Malaysia
	EduGdp	Education (% GDP)	Bank Negara Malaysia
	HealthGdp	Health (% GDP)	Bank Negara Malaysia
	HouseGdp	Housing (% GDP)	Bank Negara Malaysia
	SocialGdp	Social and community services (% GDP)	Bank Negara Malaysia
	AdminGdp	General administration (% GDP)	Bank Negara Malaysia
Control variables:	InitialGdp	InitialGdp (RM mil)	World Development Indicator
	Emp	Total employment (No. of people)	Department of Statistic Malaysia
	CapGdpGro	Growth in Gross fixed capital formation (% GDP)	World Development Indicator
	Income	Real GDP per capita (RM)	World Development Indicator
	Openness	Total trade (% GDP)	World Development Indicator

Note: In all estimations, the variables were transformed into logarithms.

How Efficient is the Malaysian Public Sector? The Results

Equation (1) is estimated using Ordinary Least Square (OLS). However, it is widely recognized that estimating models using time series data will be subjected to the problem of autocorrelation and heteroscedasticity. In view of these problems, Equation (1) is estimated using the approach proposed by Newey and West (1987) to correct both autocorrelation and heteroscedasticity. The Newey-West estimator is a heteroscedasticity- and autocorrelation-consistent (HAC) estimator that adjusts the standard errors in the presence of both serial correlation and heteroscedasticity, thus provides a way to estimate robust standard errors that are consistent even when there is autocorrelation and/or heteroscedasticity. By adjusting the variance-covariance matrix of the residuals to account for autocorrelation (serial correlation) and nonconstant variance (heteroscedasticity), this method ensures that the estimated standard errors are consistent, leading to more reliable hypothesis testing and confidence intervals in the presence of such issues.

In this study, 23 equations were estimated based on Equation (1), each corresponding to a specific type of government expenditure, except for Other Operating Expenditure (OthexpGDP), in which it cannot be estimated due to high correlation between Exp_t and Exp_t^2. For each estimated equation, the estimated coefficient, standard error, t-statistics, and R-square are reported. The significance of each variable is denoted by the asterisks, whether they are statistically significant at the 1%, 5%, or 10% level. The variables of interest are the estimated coefficients of β_1 and β_2. If they are both significant and show correct sign, that is, when $\beta_1 > 0$, $\beta_2 < 0$, it indicates an inverted U-shape curve, and the optimal government size G*, can be calculated. Any values of government size, as shown by the ratio of government expenditure to GDP, that exceeds G* would indicate government sector inefficiency; while any values of government size as shown by the ratio of government expenditure to GDP below G* would indicate an efficient government or public sector.

However, out of the 23 estimated equations, only five (5) models supported the BARS curve. The impact of the other types of government expenditures on economic growth has been inconclusive as the expenditure variables were insignificant. Nevertheless, it is worth noting that expenditure on asset acquisition and health sector suggests that it is growth-enhancing and has yet to reach the optimal level. Thus this report focuses on presenting only the estimated models that support the BARS curve.

The estimated results of the five models that supported the BARS curve for Malaysia using Equation (1) is presented in Table 3.3. At the aggregated level, using GovexpGdp as a measure of government size suggests that the relationship between total government expenditure and economic growth is nonlinear since both β_1 and β_2 are statistically significant at 1% level. Furthermore, since $\beta_1 > 0$, $\beta_2 < 0$, this implies that the nonlinear relationship exhibits an inverted U-shape curve. The inverted U-shape curve aligns with the BARS curve, indicating that increases in government expenditure boost economic growth, but excessive spending beyond an optimal point leads to inefficiencies and reduced growth.

TABLE 3.3

NONLINEAR IMPACT OF GOVERNMENT SIZE ON ECONOMIC GROWTH IN MALAYSIA

Independent Variables	Measurements of Government Size				
	GovexpGdp	**OeGdp**	**DeGdp**	**EmolGdp**	**EconserGdp**
Constant	-749.06***	-728.06***	-535.69***	-611.09***	-501.52***
	(-11.035)	(-9.8211)	(-5.3133)	(-8.5492)	(-5.1820)
Exp	**187.41***	**130.92***	**14.479***	**92.487**	**9.1647***
	(4.1867)	(3.5558)	(2.0101)	(2.6965)	(1.9081)
Exp-square	**-29.159***	**-21.876***	**-4.0012**	**-24.967**	**-3.9071**
	(-4.1900)	(-3.2810)	(-2.2274)	(-2.4112)	(-2.2023)
InitialGdp	-60.823***	-63.584***	-58.819***	-62.861***	-58.432***
	(-14.558)	(-12.985)	(-8.9274)	(-12.774)	(-9.2408)
Emp	26.283**	34.492***	38.388***	32.574***	35.324***
	(2.4697)	(3.7144)	(3.4739)	(4.2263)	(3.2195)
CapGdpGro	5.6954***	4.4923*	8.3705***	5.0701	8.2816***
	(3.0076)	(1.9518)	(3.0368)	(1.5709)	(2.7425)
Income	80.001***	77.138***	65.996***	76.947***	67.705***
	(9.7170)	(10.142)	(8.5316)	(10.498)	(8.0219)
Openness	5.1630***	8.7620***	4.2328**	12.154***	4.2930**
	(3.7222)	(8.9689)	(2.1438)	(7.0192)	(2.3865)
R-square	0.892	0.899	0.862	0.912	0.859
Optimal	**24.86**	**19.93**	**6.11**	**6.37**	**3.23**

Note: Asterisks ***, **, and * denotes statistically significant at the 1%, 5%, and 10% levels, respectively.

Upon calculating G*, the optimal size is 24.86%. This indicates that the optimal level or size of total government expenditure to GDP is 24.86%, and spending beyond this level will result in government or public sector inefficiencies and will lead to decreasing economic growth. This scenario is illustrated in Figure 3.5. Figure 3.5(a) demonstrates a nonlinear relationship between economic growth and (log) total government expenditure (% GDP), suggesting that at smaller government size and spending up to the optimal size, the economy is expanding. However, after reaching the optimal size or level, spending beyond this level will result in decreasing economic growth. This will imply government or public sector inefficiency.

On the other hand, Figure 3.5(b) depicts the optimal (size) level of the proportion of total government expenditure to GDP. Any values above this threshold level or optimal size will suggest inefficiencies. As illustrated in Figure 3.5(b), for the period 1980 to 2023, Malaysia's government sector inefficiency (or growth reducing) is demonstrated in the years leading to 1986, and the period during the global financial crisis between 2007–12. Therefore, this analysis concludes that total government expenditure has been growth-enhancing between 1986 to 2006, and 2012 onwards, suggesting an efficient public sector is in place.

FIGURE 3.5

NONLINEAR RELATIONSHIP, OPTIMAL LEVEL BETWEEN GROWTH, AND GOVERNMENT EXPENDITURE

Ratio of total government expenditure to GDP

(a)

Optimal = 24.86%

(b)
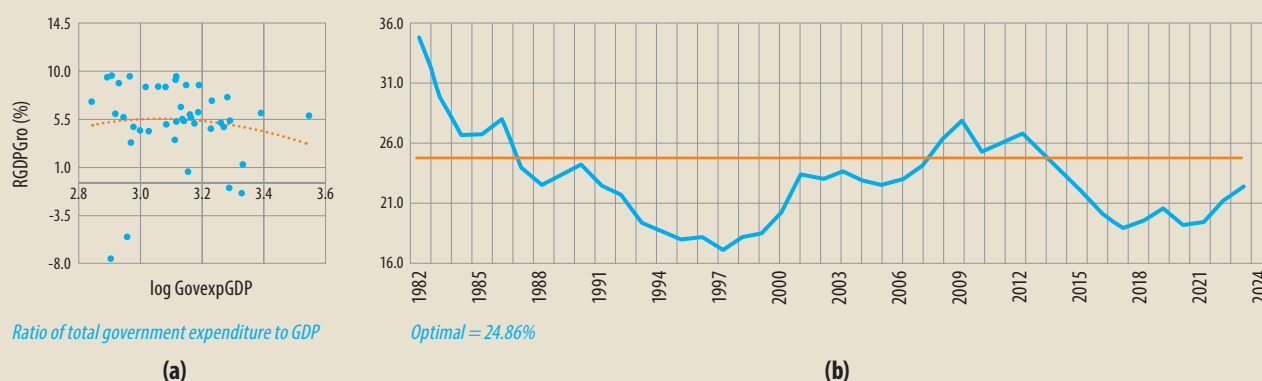
Similarly, the same scenarios are observed for operating expenditure (OeGdp), development expenditure (DeGdp), emoluments (EmolGdp), and economic services (EconserGdp). The expenditure variables, Exp_t and Exp_t^2 are statistically significant at least at the 10% level. More importantly, both of the estimated coefficients, β_1 and β_2 exhibit the expected signs to support an inverted U-shape curve, when $\beta_1 > 0$, $\beta_2 < 0$. The optimal size is calculated as 19.23%, 6.11%, 6.37%, and 3.23% for operating expenditure (OeGdp), development expenditure (DeGdp), emoluments (EmolGdp), and economic services (EconserGdp), respectively. These relationships are depicted in Figures 3.6(a,b) to 3.9(a,b). Figures 3.6(a)–3.9(a) demonstrate the nonlinear relationship between economic growth and the four types of government expenditures. Government spending beyond the optimal size will result in reducing economic growth, thus government or public sector inefficiency.

On the other hand, Figures 3.6(b) to 3.9(b) illustrate the trend in government expenditure to GDP which is above and below the optimal size. The government expenditure that is above the optimal size is denoted as inefficient while the size of the public sector as measured by the ratio of government expenditure to GDP, which is below the optimal level is regarded to be efficient. As shown in Figures 3.6(b) to 3.9(b), the Malaysian public sector has been efficient throughout 1986 to 2023, although this growth-enhancing effect has been disrupted briefly during the global financial crisis between 2007–12.

FIGURE 3.6

NONLINEAR RELATIONSHIP, OPTIMAL LEVEL BETWEEN GROWTH, AND GOVERNMENT OPERATING EXPENDITURE

Ratio of operating expenditure to GDP

(a)

Optimal = 19.93%

(b)
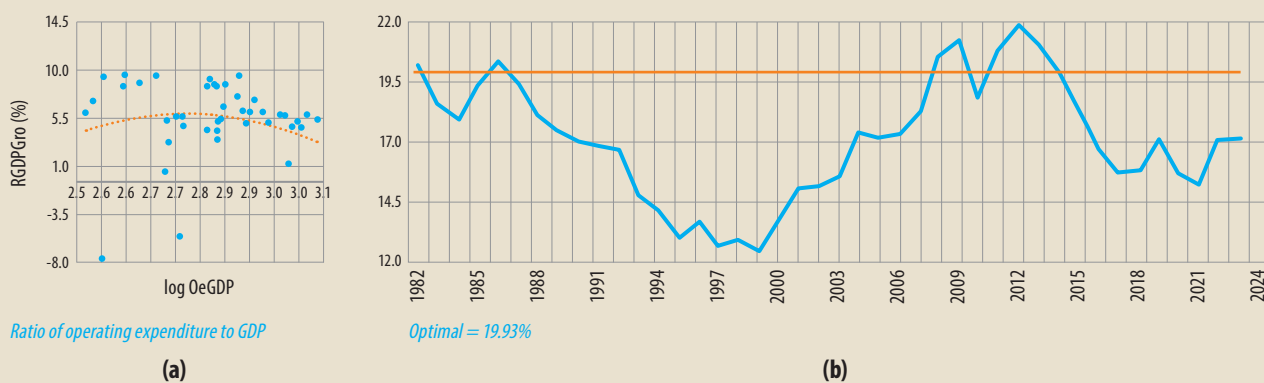
FIGURE 3.7

NONLINEAR RELATIONSHIP, OPTIMAL LEVEL BETWEEN GROWTH, AND GOVERNMENT DEVELOPMENT EXPENDITURE

Ratio of development expenditure to GDP

(a)

Optimal = 6.11%

(b)
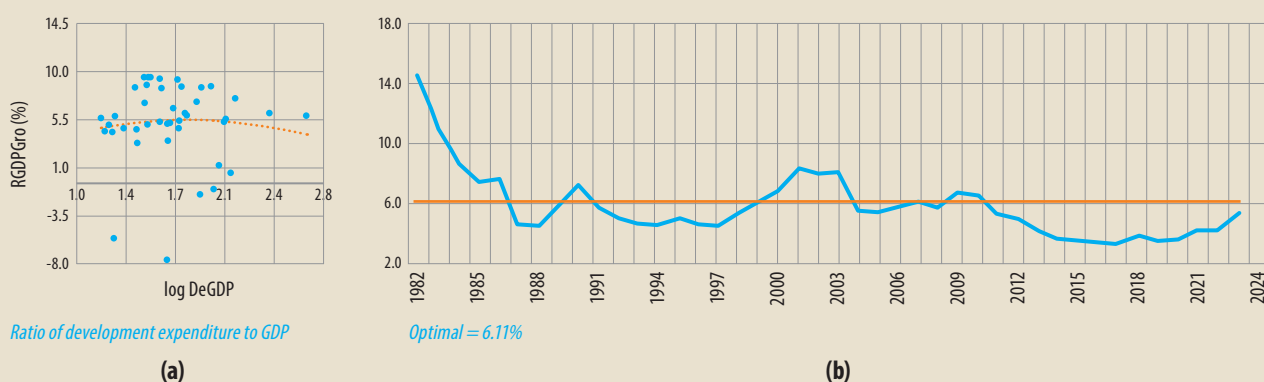
FIGURE 3.8

NONLINEAR RELATIONSHIP, OPTIMAL LEVEL BETWEEN GROWTH, AND GOVERNMENT EMOLUMENT EXPENDITURE

Ratio of emolument to GDP

(a)

Optimal = 6.37%

(b)
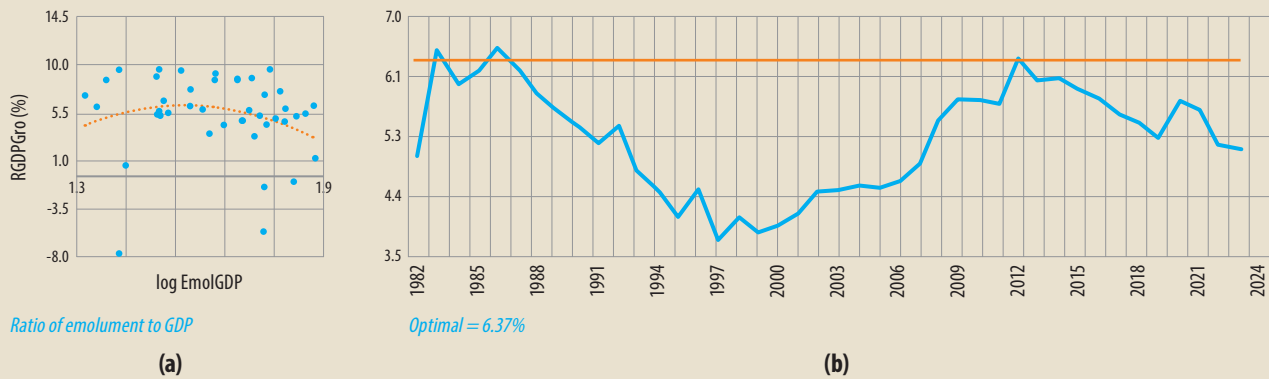
FIGURE 3.9

NONLINEAR RELATIONSHIP, OPTIMAL LEVEL BETWEEN GROWTH, AND GOVERNMENT ECONOMIC SERVICES EXPENDITURE

Ratio of economic services to GDP

(a)

Optimal = 3.23%

(b)
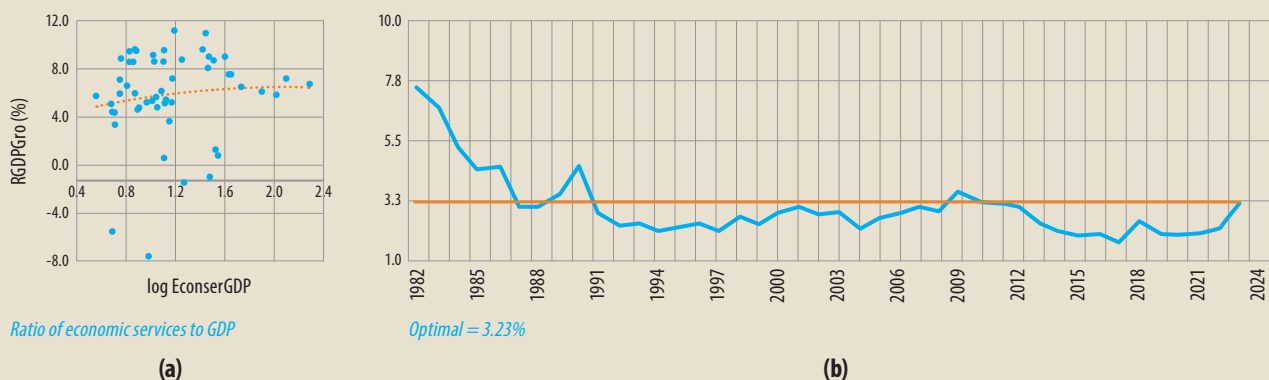
Last but not least is the role of the control variables. Interestingly, all five control variables, namely InitialGdp, Emp, CapGdpGro, Income, and Openness, in most of the estimated regression equations are generally statistically significant at the 1% level. Among these, InitialGdp exhibits a negative impact on economic growth, whereas Emp, CapGdpGro, Income, and Openness show a positive effect. The negative InitialGdp suggests that periods of lower initial GDP were associated with higher subsequent growth rates, indicating catch-up growth during the period under study. For Malaysia, this could reflect its economic history as a developing nation that successfully leveraged factors, such as high investment in infrastructure, export-oriented industrialization, and technology adoption from advanced economies. This aligns with Malaysia's transition from an agriculture-based economy in the 1980s to a diversified economy, including manufacturing and services. This also implies that Malaysia's economic growth has followed the typical diminishing returns to capital framework, as Malaysia accumulated more capital (e.g., infrastructure, factories, technology), the marginal gains to output slowed. This is consistent with the slowing growth rates observed as Malaysia transitioned from a high-growth phase in the 1980s and 1990s to more moderate growth in recent decades (Wang, 2024).

The positive impact of labor highlights the positive role of Malaysia's workforce in driving economic growth. The demographic dividend, along with government investment in education and skills, has likely contributed to the growing young workforce with education and skills that improved productivity and ultimately enhance economic growth. The positive role of capital aligns with the Solow model's prediction that capital accumulation contributes significantly to growth. In Malaysia, this includes foreign direct investment (FDI) and infrastructure development. Malaysia's open economy attracted significant FDI, particularly in manufacturing and technology, thereby accelerating its industrialization process. Furthermore, infrastructure development with large-scale projects, such as highways, industrial parks, and ports, enhanced productivity and economic growth.

On the other hand, a positive relationship between income levels and economic growth suggests that rising income contributed to domestic demand, savings, and investment. Specifically, through consumption-driven growth, rising middle-class incomes fueled both consumption and investment in higher-value sectors. Also, higher incomes are likely translated into increased savings, which in turn supported capital accumulation and contributed to economic growth.

Lastly, openness to trade and investment has been a cornerstone of Malaysia's growth strategy. The positive impact indicates that export-oriented industrialization drove growth by integrating Malaysia into global supply chains. Furthermore, access to foreign markets and technology via trade and investment spurred productivity and innovation and thereby, boosting economic growth.

Generally, this report has showed empirically that the Malaysian government effort in funding and embarking in various programs and initiatives (reported in Table 3.1) aimed at reforming and rightsizing government has been a successful endeavor. This report concludes from the perspective by relating the size of the government expenditure to GDP with economic growth, and measure the optimal size of the government or public sector. Any values of government expenditure below the optimal size are said to be an efficient public sector while any values above the optimal size are said to be inefficient public sector that leads to reducing growth with excessive spending.

For example, as illustrated in Figure 3.6, the ratio of government expenditure to GDP that crosses the optimal line (19.93%) is denoted by point A in Figure 3.4(b). The downward trend in the ratio of government expenditure to GDP from 1982 (despite a brief increase in 1985–86) to 2000, represents the period under Mahathir Mohamad premiership. During Mahathir Mohamad's tenure (1981–2003), the government pursued privatization and fiscal consolidation through initiatives, such as the Malaysia Incorporated Policy (1983) and the Privatization Master Plan (1991). These policies led to the transfer of major state-owned enterprises (SOEs), like Telekom Malaysia, Malaysia Airlines (MAS), and Tenaga Nasional (TNB), to the private sector. This reduced public sector expenditure and led to a downtrend in the expenditure-to-GDP ratio.

The 1985–86 economic crisis further prompted fiscal retrenchment, with spending cuts and subsidy rationalization. Similarly, during the Asian Financial Crisis (1997–98), Mahathir's government initially implemented austerity measures before shifting to targeted stimulus spending, though the overall fiscal stance remained prudent.

The upward trend from 2000 to 2012 was under the premiership of Abdullah Ahmad Badawi (2003–09) and Najib Razak (2009–18). During these periods, the government expanded public investment, contributing to the upward trend in expenditure-to-GDP. The implantation of the Ninth and Tenth Malaysia Plans (2006–15) saw higher government spending on education, healthcare, infrastructure, and development corridors while civil service wage hikes and pensions restructuring in 2007 and 2012 increased operational costs. Following the 2008–09 Global Financial Crisis, Najib launched two major fiscal stimulus packages totalling MYR67 billion, significantly increasing public spending. The Government Transformation Programme (GTP) (2010) also led to higher allocations for social assistance, infrastructure, and BR1M (People's Aid 1 Malaysia) cash handouts, peaking government expenditure relative to GDP in 2012.

Between 2007 to 2014, the public sector is characterized by a phase of inefficiency, as shown by the segment A-CC-A in Figure 3.4b. Nonetheless, after 2012, the ratio of government expenditure to GDP shows downward trend until 2023, as illustrated in Figure 3.6. During these periods, the government adopted fiscal consolidation measures, leading to a gradual downtrend. The Subsidy Rationalization Programme (2013–16) phased out fuel and sugar subsidies, easing fiscal pressures while the introduction of the Goods and Services Tax (GST) in 2015 diversified government revenue and reduced reliance on deficit financing. Under the Mahathir 2.0 administration (2018–20) and Pakatan Harapan government, further rightsizing efforts included public sector downsizing, expenditure rationalization, and renegotiation of large infrastructure projects, such as the East Coast Rail Link (ECRL) and the Mass Rapid Transit Line 2 (MRT3). The abolition of GST in 2018, however, weakened government revenue, prompting stricter budget controls.

The COVID-19 pandemic in 2020–21 led to a temporary spike in government expenditure, driven by massive stimulus packages *(Prihatin, Penjana, Pemerkasa)* aimed at economic recovery, social protection, and healthcare spending. However, in the postpandemic period, Malaysia resumed fiscal consolidation, with subsidy rationalization and expenditure control measures to bring the expenditure-to-GDP ratio down by 2023. The trend showcases Malaysia's continuous balancing act between economic growth and fiscal sustainability, shifting between expansionary and contractionary policies in response to economic conditions.

Success and Challenges of Rightsizing in Malaysia

Rightsizing in the public sector is a strategic process aimed at optimizing workforce size, improving efficiency, and enhancing the effectiveness of government operations. In Malaysia, rightsizing efforts have produced mixed results, with some initiatives leading to substantial improvements while others encountered significant challenges (Siddiquee, 2006). The analysis of these cases provides insights into the factors contributing to public sector reforms' success and challenges.

Key Success Cases

One of the most notable successes in Malaysia's rightsizing efforts emerged from the Public Sector Reform Initiatives of the 2010s, particularly under the GTP. Launched in 2010, the GTP aimed to improve public service delivery and governance through a series of targeted reforms. A key area of success under the GTP was the streamlining of government processes, which significantly reduced bureaucratic delays. The introduction of performance-based management systems and the use of KPIs created a more accountable and efficient public service environment. These measures allowed government agencies to better track their performance, making it easier to identify inefficiencies and implement corrective actions (Siddiquee, 2014; Siddiquee et al., 2017; Xavier et al., 2016).

Additionally, the GTP's expansion of e-government services played a crucial role in streamlining administrative procedures. For instance, online tax payments and business registrations were integrated into the MyGovernment Portal, simplifying interactions between citizens and government agencies. This digital transformation reduced the need for physical infrastructure and manual labor, leading to faster service delivery and operational efficiency. The shift toward e-governance also aligned Malaysia's public sector with global trends in digital governance, better positioning it to meet the demands of a modern and increasingly digital economy (Siddiquee, 2006).

The implementation of the VSS under the GTP was another successful aspect of Malaysia's rightsizing efforts. The VSS allowed for the voluntary exit of employees from the civil service, thereby reducing the workforce without resorting to compulsory layoffs. This approach minimized resistance and labor disputes, providing a more acceptable workforce reduction alternative. The VSS contributed to workforce optimization while maintaining organizational stability during the transition, which is often a critical challenge in public sector reforms (JPA, 2022).

Beyond the GTP, the Digital Transformation Initiatives launched in subsequent years have continued to drive rightsizing efforts. The MyGovernment Portal is a successful example, centralizing a wide range of government services on a single digital platform. This initiative not only improved service accessibility but also reduced the administrative burden on government employees, thereby contributing to a more efficient and leaner civil service. Adopting digital technologies in areas, such as electronic voting and digital licensing, further streamlined public sector operations, reducing the need for large physical workforces while increasing transparency and operational efficiency (Siddiquee, 2006).

The Malaysian Administrative Modernisation and Management Planning Unit (MAMPU) has also played a pivotal role in rightsizing specific government agencies (Siddiquee, 2002; Tjiptoherijanto, 2012). MAMPU's efforts to modernize public administration and manage human resources more effectively led to significant improvements in interagency collaboration, standard operating procedures, and performance management. These reforms, implemented through well-defined frameworks and guidelines, enhanced the overall functioning of the civil service, demonstrating the importance of effective management structures in the success of rightsizing initiatives.

Key Challenges

While several rightsizing initiatives in Malaysia have been successful, there have also been notable challenges that highlight the complexities inherent in public sector reform (Lim, 2007; Xavier et al., 2019; Yaakob et al., 2012). One of the main issues faced during implementing the GTP was resistance from employees and unions. Many public sector employees viewed the restructuring efforts suspiciously, fearing job losses and increased workloads. This resistance often led to lower morale and delayed the implementation of key reforms, particularly those involving workforce reductions or changes to traditional job roles. The reluctance of unions to endorse the reforms created additional obstacles, undermining the potential success of rightsizing initiatives.

Furthermore, the inconsistent outcomes of the GTP across different government agencies illustrate the difficulties in achieving uniform success in large-scale public sector reforms. While some agencies embraced the new performance-based management systems and achieved significant improvements, others struggled to implement these changes effectively. Variations in the performance of different government agencies led to disparities in service delivery, with some areas showing marked improvement while others continued to face inefficiencies. This inconsistency points to the need for more tailored approaches to rightsizing that consider each agency's specific challenges and capacities (Siddiquee, 2014a).

In addition, the financial and operational strain associated with rightsizing also posed a significant challenge. The costs of implementing rightsizing, including severance packages and restructuring expenses, were substantial, and in some cases, these immediate financial outlays placed a strain on government budgets. While the long-term benefits of rightsizing are intended to outweigh the short-term costs, in some cases, the financial burden of the reforms was more significant than anticipated, affecting the overall sustainability of the efforts. Further, the process of rightsizing occasionally led to operational disruptions, as agencies underwent structural changes and staff reductions. These disruptions sometimes resulted in a temporary decline in the quality and timeliness of public services, frustrating both employees and the general public.

The mixed results of rightsizing in Malaysia offer valuable lessons for future reform efforts in Malaysia and other countries seeking to optimize their public sectors. The successes achieved through the GTP and digital transformation initiatives demonstrate the importance of leveraging technology and performance-based management systems in streamlining public sector operations. These reforms have proven that with proper planning, strategic use of technology, and effective management, it is possible to significantly improve public service delivery while optimizing the size of the civil service.

Future rightsizing initiatives must emphasize maintaining a balance between workforce optimization and service continuity. While reducing the workforce may alleviate fiscal pressures, it is equally important to ensure that the remaining staff are adequately supported and that critical functions are not
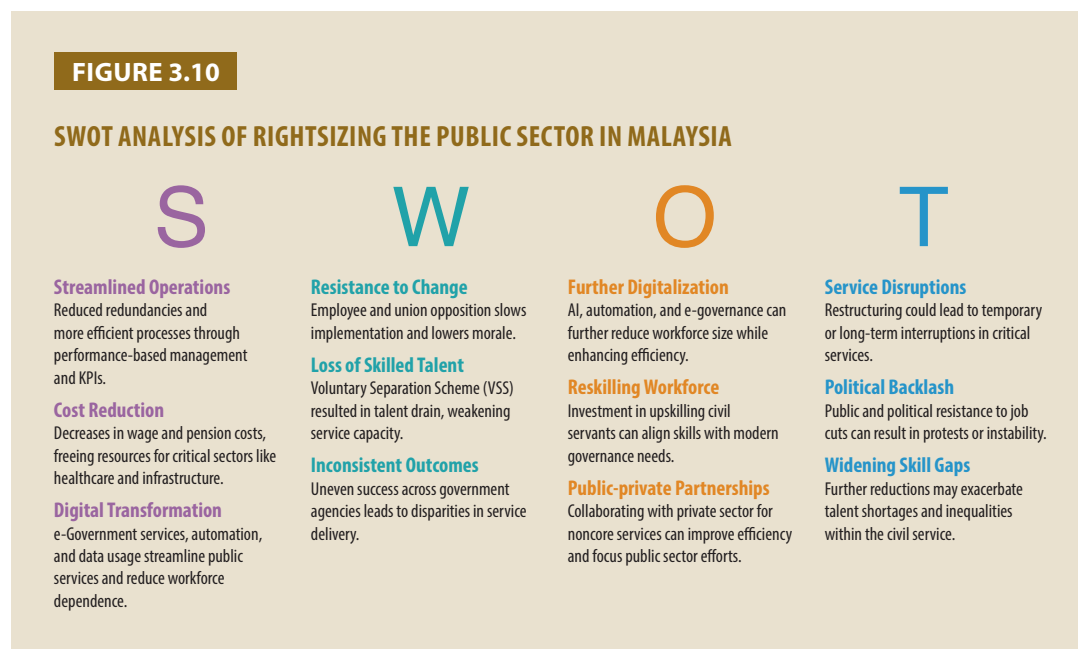
disrupted. Additionally, more attention should be given to talent retention and capacity-building, ensuring that public sector employees are equipped with the necessary skills to adapt to new technologies and governance demands.

In conclusion, while rightsizing in Malaysia has led to notable successes in improving administrative efficiency and public service delivery, the challenges faced indicate that careful planning, effective communication, and robust monitoring are critical to the success of such initiatives. By learning from the successes and challenges of past efforts, future reforms can be better designed to meet the evolving needs of the public sector and the broader national development objectives.

SWOT Analysis of Rightsizing the Public Sector in Malaysia

The SWOT analysis of rightsizing the public sector in Malaysia highlights the strengths, weaknesses, opportunities, and threats associated with the process. Strengths include streamlining operations, reducing costs, and embracing digital transformation while weaknesses focus on employee resistance, loss of skilled talent, and inconsistent outcomes across agencies. Opportunities, such as further digitalization, workforce reskilling, and public-private partnerships, can drive future improvements, but threats like service disruptions, political backlash, and widening skill gaps pose significant challenges. This analysis offers a concise overview of the key factors influencing Malaysia's rightsizing efforts summarized in Figure 3.10.

FIGURE 3.10

SWOT ANALYSIS OF RIGHTSIZING THE PUBLIC SECTOR IN MALAYSIA

S   W   O   T

Streamlined Operations
Reduced redundancies and more efficient processes through performance-based management and KPIs.

Cost Reduction
Decreases in wage and pension costs, freeing resources for critical sectors like healthcare and infrastructure.

Digital Transformation
e-Government services, automation, and data usage streamline public services and reduce workforce dependence.

Resistance to Change
Employee and union opposition slows implementation and lowers morale.

Loss of Skilled Talent
Voluntary Separation Scheme (VSS) resulted in talent drain, weakening service capacity.

Inconsistent Outcomes
Uneven success across government agencies leads to disparities in service delivery.

Further Digitalization
AI, automation, and e-governance can further reduce workforce size while enhancing efficiency.

Reskilling Workforce
Investment in upskilling civil servants can align skills with modern governance needs.

Public-private Partnerships
Collaborating with private sector for noncore services can improve efficiency and focus public sector efforts.

Service Disruptions
Restructuring could lead to temporary or long-term interruptions in critical services.

Political Backlash
Public and political resistance to job cuts can result in protests or instability.

Widening Skill Gaps
Further reductions may exacerbate talent shortages and inequalities within the civil service.

Strengths

i)   **Streamlined operations and efficiency gains**

Rightsizing enables the streamlining of government processes by eliminating redundancies, reducing overlapping functions, and enhancing efficiency. The GTP demonstrated that performance-based management systems and KPIs helped create a more efficient public service framework, leading to improved service delivery and accountability.

ii)   **Fiscal responsibility and cost reduction**

One of the core strengths of rightsizing is its ability to reduce the fiscal burden on the government. Malaysia's large civil service has historically consumed a significant portion of the national budget, particularly regarding wages, pensions, and benefits. By reducing the workforce through

measures like the VSS, the government can decrease operational costs and reallocate resources to critical development projects and sectors, like healthcare, education, and infrastructure.

iii)   Improved use of digital technology

Rightsizing can drive the adoption of digital technologies as the government shifts toward e-governance and automation to handle routine tasks. Initiatives such as the MyGovernment Portal have successfully streamlined administrative processes, enhancing the delivery of public services. The move toward digitalization not only improves efficiency but also reduces the need for a large manual workforce that aligns the civil service with the demands of a modern, digitized economy.

Weaknesses

i)   Resistance from employees and unions

Rightsizing efforts often face significant resistance from civil servants and unions, who fear job losses, reduced job security, and increased workloads for remaining employees. This resistance, which was observed during the GTP reforms, can slow down implementation and lead to lower employee morale. Managing these concerns requires comprehensive change management strategies, which have not always been effectively applied in Malaysia's rightsizing initiatives.

ii)   Loss of experienced talent

The implementation of VSS, while successful in reducing workforce size, has also led to the unintended consequence of a brain drain. Many experienced and highly skilled civil servants opted for early retirement, leaving behind gaps in critical areas of expertise. This loss of talent has weakened the capacity of some government departments to maintain high service standards and expertise in policy development and implementation.

iii)   Inconsistent implementation across agencies

A major challenge faced by rightsizing efforts in Malaysia has been the inconsistent implementation of reforms across different government agencies. Some agencies were able to adopt performance-based systems effectively while others struggled with inefficiency and bureaucratic inertia. This inconsistency undermined the overall success of rightsizing efforts and created disparities in the quality of public service delivery.

Opportunities

i)   Leverage technology for further rightsizing

The ongoing digital transformation of Malaysia's public sector presents a major opportunity to further streamline operations. By continuing to invest in e-governance, automation, and data-driven decision-making processes, the civil service can reduce its reliance on manual labor, leading to a leaner and more responsive public sector. Technologies, such as AI, big data analytics, and cloud computing, can further enhance the efficiency of public service delivery while reducing operational costs.

ii)   Reskilling and upskilling the workforce

Rightsizing offers an opportunity to realign the civil service workforce with the evolving needs of government. With strategic investment in reskilling and upskilling programs, the government can prepare its workforce to take on new roles that are better aligned with technological advancements and emerging policy challenges. Training programs focused on digital skills, policy analysis, and project management will help modernize the civil service and improve its adaptability to future demands.

iii)   **Partnerships with the private sector**

Rightsizing opens up the possibility for public-private partnerships in noncore government functions, such as IT services, infrastructure development, and facility management. By outsourcing certain services to the private sector, the government can focus on its core responsibilities while benefiting from the efficiency and innovation of private enterprises. These partnerships could enhance service delivery without increasing the size of the public sector workforce.

Threats

i)   **Potential for service delivery disruptions**

One of the key risks of rightsizing is the potential for temporary disruptions in the delivery of essential public services. As government agencies undergo restructuring and workforce reductions, there may be delays or reductions in the quality of services provided to citizens, particularly in critical sectors, such as healthcare, education, and public safety. Such disruptions can erode public trust in the government and create dissatisfaction among citizens.

ii)   **Political and public backlash**

Rightsizing initiatives can be politically sensitive, particularly in a sociopolitical context like Malaysia, where the public sector plays a major role in employment. Significant workforce reductions or perceived threats to job security may result in political backlash from both public sector employees and the general population. This could lead to protests, opposition from labor unions, and political instability, particularly if the reforms are perceived as unfair or inadequately managed.

iii)   **Increased inequality and skill gaps**

Rightsizing efforts, if not carefully managed, may exacerbate existing inequalities within the civil service. The departure of skilled personnel through VSS has already created talent gaps in some agencies, and future workforce reductions could widen these gaps. Additionally, rightsizing may disproportionately affect lower-income civil servants or marginalized groups, leading to greater socioeconomic disparities within the public sector.

Recommendations and Conclusions

Policy Recommendations based on Success Factors

To enhance the success of rightsizing and restructuring initiatives in the Malaysian public sector, several policy recommendations can be proposed. These recommendations focus on addressing key success factors, ensuring the sustainability of reforms, and overcoming challenges faced in past initiatives.

i)   **Strengthen stakeholder engagement**

One critical recommendation is to strengthen stakeholder engagement. This involves actively involving civil servants, unions, and the public in the planning and implementation of rightsizing and restructuring efforts. Transparent engagement fosters trust and reduces resistance to change. Strategies, such as town hall meetings, surveys, and focus groups can help gather feedback and ensure that stakeholders' concerns are addressed. Additionally, forming task forces comprising government officials, industry experts, and employee representatives can guide the reform process effectively.

(ii)   **Implement reforms through phased, pilot-tested rollouts**

A phased implementation approach is also essential for the success of restructuring initiatives. Gradual rollouts allow for smoother transitions and minimize disruptions to public services.

Piloting reforms in selected agencies or regions before scaling them nationwide provides an opportunity to identify and address challenges early. Regular reviews and adjustments to the implementation strategy based on pilot outcomes further enhance the effectiveness of the reforms.

iii)   Invest in workforce development through upskilling and reskilling

Upskilling and reskilling the public sector workforce is another vital component. Investing in capacity-building programs ensures that civil servants are equipped with the necessary skills to adapt to new roles and digitalized workflows. Structured training programs, professional certifications, and collaboration with training institutions can prepare the workforce for the demands of a modernized public administration. Incentives, such as scholarships or professional development opportunities, can encourage employees to enhance their qualifications.

iv)   Drive digital transformation through technology integration

The integration of technology and digital transformation is a cornerstone of effective restructuring. Accelerating the adoption of digital tools and platforms streamlines processes, reduces bureaucracy, and improves service delivery. Expanding the use of e-government platforms, such as MyGovCloud, and integrating technologies like AI and data analytics can optimize decision-making and enhance efficiency.

v)   Enhance governance and accountability frameworks

Strengthening governance and accountability mechanisms is equally important. Robust oversight ensures transparency, minimizes resource wastage, and reduces corruption. KPIs should be established to monitor the performance of restructured agencies, and the Malaysian Anti-Corruption Commission (MACC) should play an active role in overseeing reforms and addressing misconduct.

vi)   Align reforms with long-term fiscal sustainability goals

Fiscal sustainability is another critical consideration. Rightsizing and restructuring initiatives must align with broader fiscal goals to ensure long-term economic viability. Cost-benefit analyses should be conducted to evaluate the financial impact of reforms, and priority should be given to initiatives that yield high returns on investment in terms of efficiency and service improvement.

vii)   Streamline service delivery via interagency collaborations

Interagency collaboration is vital for minimizing duplication of roles and ensuring alignment with national priorities. Establishing centralized coordination units to oversee overlapping functions and conducting regular interagency workshops can streamline processes and foster cooperation across departments.

viii)   Communicate reform benefits transparency to build trust

Effective communication of reform objectives and progress is essential for gaining public and employee support. A robust communication strategy that utilizes mass media, social media platforms, and government websites can help disseminate accurate information about the goals and benefits of reforms. Appointing spokespersons to address public concerns and provide updates ensures transparency and reduces misinformation.

ix)   Establish rigorous monitoring and evaluation systems

Continuous monitoring and evaluation are critical for assessing the impact of reforms and ensuring their relevance. Performance tracking systems should be implemented to monitor outputs, and periodic audits and progress reports should be published to maintain public accountability. Ongoing evaluation allows for timely adjustments to improve the effectiveness of the reforms.

x)   Ensure sustained political will and stability

Finally, fostering political stability and securing leadership commitment are crucial for driving reforms forward. Bipartisan political support and strong leadership ensure the continuity of initiatives, even during leadership transitions. Institutionalizing reform agendas through legislation or executive orders and building consensus across political parties can maintain momentum and focus on long-term goals.

By addressing these success factors, the Malaysian government can enhance the effectiveness, sustainability, and public acceptance of rightsizing and restructuring initiatives, contributing to a leaner, more efficient, and responsive public sector.

Further Policy Recommendations to Overcome Challenges

On the other hand, to address the factors associated with rightsizing and restructuring initiatives in the Malaysian public sector, a series of policy recommendations can help overcome challenges, such as resistance to change, political instability, inadequate planning, and fiscal constraints. These recommendations focus on creating a conducive environment for reform implementation, ensuring sustainability, and minimizing disruptions to public service delivery.

i)   Addressing resistance to change

One of the most critical aspects is developing a comprehensive change management strategy to address resistance to reforms from civil servants, unions, and stakeholders. Resistance to change is a common barrier, often fueled by fears of job loss or unclear communication. The government should conduct awareness campaigns to explain the objectives and benefits of reforms, clarify misconceptions, and build stakeholder support. Appointing change champions within organizations can also promote reform efforts and provide leadership at various levels. Counseling and support programs for employees impacted by downsizing or role changes can further reduce opposition.

ii)   Ensuring political stability and leadership

Political stability and strong leadership are essential for ensuring continuity and coherence in reform initiatives. Frequent leadership changes and political instability can derail long-term policies, creating inefficiencies and delays. To mitigate this, reforms should be institutionalized through legislation, making them less susceptible to changes in leadership. Building bipartisan support and forming cross-party task forces to oversee reforms can minimize political opposition and ensure momentum even during transitions.

iii)   Managing fiscal constraints

Fiscal constraints often limit the scope of restructuring initiatives. Aligning rightsizing efforts with realistic fiscal planning is crucial to balance upfront costs with long-term savings. The government should conduct cost-benefit analyses to evaluate the financial impact of reforms and prioritize initiatives with high returns on investment. Special funding allocations for critical reforms and exploring public-private partnerships can help manage the financial burden.

iv)   Effective workforce planning

Another key area, workforce reductions, if not properly managed, can lead to skill gaps and disrupt essential services. The government should conduct detailed workforce audits to identify redundancies and prioritize redeployment opportunities to fill vacancies in underserved areas. Reskilling and upskilling programs tailored to organizational needs are vital to prepare employees for new roles, particularly as the public sector increasingly embraces digital transformation.

v)   Improving interagency coordination

Poor coordination among government agencies has been a recurring issue in past reforms. To address this, clear coordination mechanisms should be established to reduce overlapping functions

and improve interagency collaboration. A centralized oversight body can streamline processes while regular interagency workshops and shared digital platforms can enhance communication and data sharing.

vi)   Enhancing transparent communication

Transparent communication is crucial to the success of restructuring initiatives and the lack of clear and consistent messaging often fosters mistrust and misinformation. A robust communication strategy that utilizes multiple channels, such as social media, government websites, and town hall meetings, can ensure that stakeholders are well-informed. Regular updates on reform progress and addressing public concerns proactively through designated spokespersons can further build trust.

vii)   Strengthening governance and accountability

Robust frameworks are vital to ensure the integrity and efficiency of reform processes. Independent audit committees should monitor the financial and operational aspects of reforms while KPIs can help evaluate agency performance. The MACC should play an active role in addressing resource mismanagement and misconduct.

viii) Adopting a phased and flexible implementation

A gradual rollout of reforms minimizes disruptions and provides opportunities for adjustment based on feedback. Pilot programs in specific regions or agencies can help identify potential challenges before scaling nationwide. Periodic reviews and flexibility in reform plans can accommodate changing circumstances and improve outcomes.

ix)   Bridging skill gaps through targeted training programs

As the public sector embraces digital tools and modern workflows, employees must be equipped with the necessary skills. Partnerships with universities and training institutions can develop customized training modules, particularly in technology, data analytics, and process optimization. Financial incentives or career advancement opportunities for employees who participate in training can further encourage upskilling.

x)   Implementing continuous monitoring and evaluation (M&E)

Tracking the effectiveness of reforms and making timely adjustments is part of continuous M&E. M&E frameworks should include clear metrics and timelines, with periodic progress reports to promote transparency. Independent third-party assessments can provide objective evaluations and insights for improvement.

By addressing the various challenges through comprehensive strategies and targeted interventions, the Malaysian government can enhance the effectiveness, sustainability, and public acceptance of rightsizing and restructuring initiatives. These reforms will contribute to a more agile, efficient, and responsive public sector that aligns with national priorities and meets the evolving needs of its citizens.

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IMPROVING PUBLIC SECTOR PERFORMANCE IN MONGOLIA THROUGH GOVERNMENT PROCESS RE-ENGINEERING (GPR)

Abstract

This research examines government rightsizing and restructuring initiatives in Mongolia, focusing on the Ministry of Labor and Social Protection (MLSP) under the Government Process Re-Engineering (GPR) project. The study highlights the project's success in reducing service delivery steps by a factor of at least two to five times, which resulted in enhanced citizen satisfaction and operational efficiency. Key reforms included digital integration, the establishment of centralized service centers, and the application of best practices and productivity tools, such as the RACI (Responsible, Accountable, Consulted, Informed) matrix, process analysis and mapping, risk registers and evaluations, satisfaction indexes for both citizens and public officials as well as extensive analysis and observations of internal and external processes. Additional methodologies included cost benefit and root cause analyses, the application of the three lines of defense, and adherence to international standards, such as ISO and other established management frameworks.

The research also identifies critical challenges, including resistance to change, interagency coordination issues, and resource constraints. Despite these hurdles, success factors, such as strong leadership and active stakeholder engagement contributed to significant improvements.

In addition, the research outlines the effectiveness of GPR as a strategic tool for achieving long-term rightsizing goals, emphasizing its dual approach: addressing existing issues and pursuing a future-oriented vision. Unlike Business Process Re-Engineering (BPR), GPR prioritizes outcomes and impact over outputs. The approach centers on improving public service quality and citizen satisfaction, with process audits playing a crucial role in evaluating outcomes and ensuring alignment with strategic goals.

The study offers policy recommendations for sustaining reform efforts, including ongoing digital enhancements, continuous stakeholder involvement, and robust monitoring systems. Additionally, it advocates for replicating successful GPR strategies across other sectors to promote a transparent and citizen-centric public administration. This research serves as a resource for policymakers and practitioners by providing insights into enhancing public sector efficiency in Mongolia.

Introduction

This preliminary report provides an in-depth analysis of the rightsizing and restructuring efforts carried out within Mongolia's labor and social protection sector. These efforts are part of a broader initiative by the government of Mongolia to modernize public service delivery, reduce bureaucratic inefficiencies, and create a more citizen-centric administration. The Ministry of Labor and Social Protection (MLSP), along with its affiliated agencies, has been at the forefront of these reforms,

serving as a pilot case for both process reengineering and structural optimization (Authority of Mongolian Government Supervisory (AGS), 2024, p. 12).

The MLSP is an ideal subject for examining rightsizing and restructuring initiatives in Mongolia for several reasons. As one of the largest ministries in the country, it oversees critical functions, such as social welfare, employment services, and social insurance, making it a key player in national governance. However, like many other public institutions, it has long been burdened by bureaucratic inefficiencies, fragmented service delivery, and overlapping responsibilities. These structural challenges have led to increased administrative costs, lengthy processing times, and reduced citizen satisfaction. The government's decision to use the MLSP as a pilot for reform was driven by the need to optimize resources, improve service accessibility, and enhance overall governance efficiency. By successfully restructuring the MLSP, the government aims to set a precedent for broader institutional reform across all ministries and agencies.

The GPR Methodology

One of the key initiatives underpinning these reforms is the Government Process Re-engineering (GPR) project, which is directly and indirectly linked to the country's rightsizing and restructuring agenda. The GPR project serves as a cornerstone for rationalizing administrative processes, reducing redundancies, and enhancing digital integration to create a more efficient and accountable government. It provides a structured approach to evaluating and streamlining government functions, applying internationally recognized tools, such as RACI matrix, process analysis and mapping, risk register and evaluation, satisfaction indexes for citizens and public officials as well as extensive analysis and observations of internal and external processes. The project also incorporates cost-benefit and root cause analysis, along with ISO 31000-based risk management frameworks (AGS, 2024, p. 17).

The rightsizing initiative, driven by the Authority of Mongolian Government Supervisory (AGS) and supported by the Ministry of Digital Development and Communications as well as the "New Revival Policy Center," aims to strengthen governance, improve efficiency, and ensure that public services are more accessible and responsive to the needs of citizens. With the overall objective of establishing a streamlined, transparent, and results-based management system, this report outlines the steps taken, challenges faced, and outcomes achieved thus far.

The direct link between GPR and rightsizing can be seen in its efforts to reduce excessive administrative layers, optimize human resource distribution, and eliminate redundant functions within MLSP. A comprehensive review of 211 public services was conducted, revealing that many of them involved unnecessary steps that contributed to inefficiencies. Through GPR-driven process re-engineering, these services were streamlined, reducing the average number of process steps from 20 to between 4 and 10 (MLSP, 2024, p. 45). This has significantly improved service efficiency, reduced costs, and enhanced public trust in government services.

Stakeholder Roles and Reform Impact

This report explores both the demand and supply sides of rightsizing, delving into the underlying reasons for initiating these reforms, the initiatives undertaken, and the impact on service delivery. It also examines the role of various stakeholders, including the MLSP, regional and district offices, and other related stakeholders, in driving these reforms forward.

This report aims to serve as a foundational document for understanding the ongoing rightsizing and restructuring initiatives in Mongolia's public administration, offering key insights and recommendations for future endeavors to optimize the government's service delivery system.

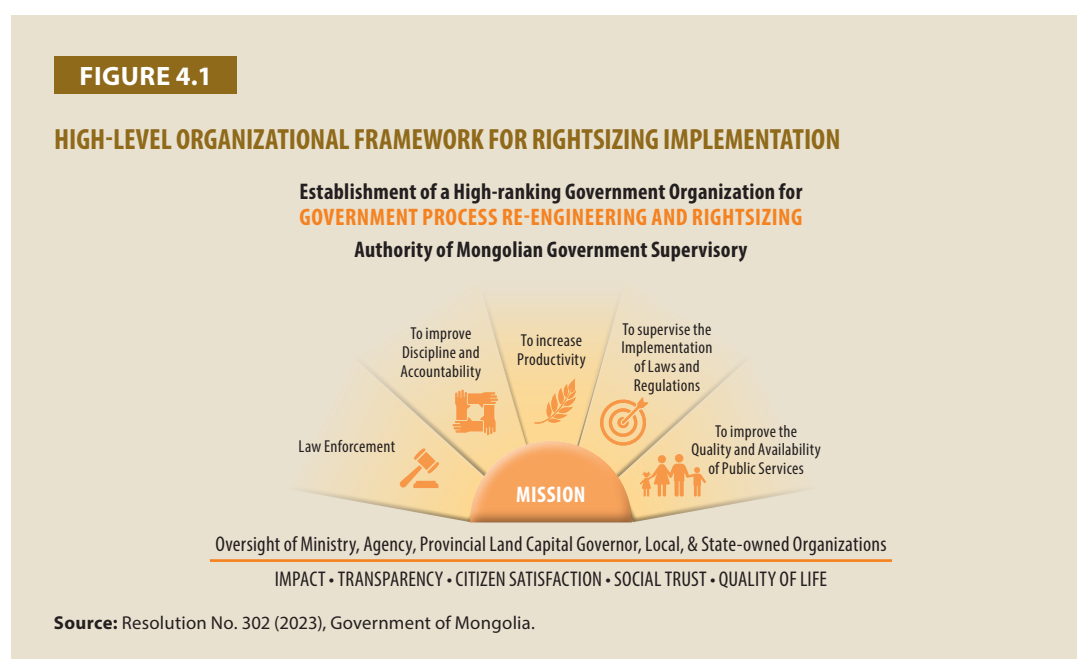## Background and Overview (Political and Administrative Context)

Since the early 1990s, Mongolia has transitioned from a centrally planned economy to a democratic, market-oriented state. This transition had been accompanied by reforms to establish an efficient,

transparent, and accountable public administration. Despite these efforts, challenges persist in aligning administrative structures with the country's socioeconomic needs and enhancing service delivery efficiency.

Mongolia's political system is characterized by centralized governance, where the central government controls policy-making and implementation. Although there has been attempts to decentralize certain functions to local governments, these efforts have not succeeded. As a result, inefficiencies persist and there is a lack of responsiveness to local needs (National Development Agency, 2023). The administrative structure includes 16 ministries and 35 agencies, with the MLSP being one of the largest, responsible for managing social welfare, employment services, and social insurance schemes. The ministry's extensive reach includes 21 regional and nine district offices. However, the existing setup has struggled to adapt to changing conditions, resulting in service delivery gaps.

The GPR project in Mongolia began in 2023 as part of the New Revival Policy and Vision 2050, which aims to modernize governance and enhance service efficiency. The AGS, the highest-ranked government organization responsible for oversight and productivity under the Government Supervisory Law, spearheaded the initiative. Reporting directly to the Prime Minister, AGS played a pivotal role in pushing rightsizing efforts forward. With four main divisions dedicated to re-engineering through oversight, AGS was instrumental in making GPR the first successful case of government restructuring. (Government of Mongolia, 2023).

FIGURE 4.1

HIGH-LEVEL ORGANIZATIONAL FRAMEWORK FOR RIGHTSIZING IMPLEMENTATION

Source: Resolution No. 302 (2023), Government of Mongolia.

The MLSP has been a focal point for rightsizing and restructuring under the GPR project. It was chosen as a pilot due to its broad mandate and complex structure. The reforms aim to streamline the ministry's operation, making it more citizen-centric and capable of delivering timely, high-quality services.

Key challenges driving the need for rightsizing include overlapping roles, fragmented service delivery, and bureaucratic complexity. The GPR project revealed that many administrative processes were redundant and added little value, resulting in increased costs and longer response times. Resource constraints and staffing imbalances have further hindered efficient service delivery, prompting a restructuring to optimize resources.

Digital transformation is a critical component of these reforms. The integration of digital tools is expected to enhance efficiency, data management, and citizen access to services. However, resistance to change, coordination difficulties, and legal complexities have posed implementation challenges. To address these, the government has focused on stakeholder engagement and capacity building.

In conclusion, Mongolia's centralized governance and complex administrative structures necessitate comprehensive reforms. The MLSP's rightsizing efforts are part of a broader strategy to create an efficient, transparent, and responsive public administration aligned with Mongolia's development goals, with plans to extend similar reforms across all sectors by 2028.

Rightsizing in the National Context

The concept of rightsizing in the context of Mongolia's public administration is a direct response to the need for optimizing government structures and processes to ensure efficient service delivery, fiscal sustainability, and alignment with national development goals. Rightsizing goes beyond mere reduction of workforce or budget cuts; it involves a strategic realignment of the size, roles, and functions of government entities to meet the demands of modern governance and public service delivery. In the context of Mongolia, rightsizing has become a central component of the GPR project, which aims to streamline the public sector and build a more effective, transparent, and citizen-centered government.

The push for rightsizing in Mongolia stems from several factors, including the desire to create a leaner and more efficient government, improve service delivery, and address fiscal constraints. The country's transition to a democratic, market-based economy in the early 1990s brought about significant changes in its political and administrative structures. Since then, the government has faced the challenge of managing a complex network of ministries, agencies, and public organizations that often overlap in their mandates and functions. This situation has led to inefficiencies, duplication of efforts, and a lack of coordination between different government entities. As a result, the government recognized the need to review and restructure its organizational setup to eliminate redundancies, clarify roles and responsibilities, and ensure that resources are allocated where they are most needed.

Implementation Timeline and Early Outcomes
The project was officially formalized through a Mongolian government resolution on 1 November 2023, which assigned AGS the responsibility for its implementation. Subsequently, the head of agency issued a directive on 14 June 2023, appointing a GRP team, led by a highly experienced executive research officer and head of the oversight team at AGS. Within five months, the team successfully executed process re-engineering in the labor and social protection sector, delivering a comprehensive reform plan to the government. Following their recommendations, official restructuring measures were adopted, and on 1 January 2024, the reforms were put into full implementation. This initiative continues to expand across government sectors, ensuring a transparent, effective, and citizen-centric administration, with AGS providing ongoing oversight, evaluation, and strategic guidance to sustain and enhance these reforms.

Operation Challenges and Digital Transformation
Rightsizing in Mongolia has been driven by the recognition that an oversized public sector can lead to inefficiencies, increased costs, and reduced effectiveness. The existing organizational structures within MLSP and its affiliated agencies were found to be complex, with numerous layers of hierarchy and excessive administrative processes. This not only resulted in long waiting times for citizens seeking services, but also created bottlenecks in decision-making and service provision. The rightsizing initiative therefore focused on simplifying administrative processes, reducing the number of hierarchical levels, and streamlining workflows to create a more agile and responsive public sector.

One of the main strategies used in rightsizing the MLSP was the application of process re-engineering techniques to analyze and redesign existing processes. The GPR project conducted a comprehensive review of 211 services provided by the MLSP, identifying inefficiencies and areas for improvement.

The analysis revealed that many services involved an average of 20 process steps, many of which were redundant and contributed to delays in service delivery. By applying process re-engineering principles, the ministry was able to reduce the number of steps required for service delivery to between 4–10, depending on the complexity of the service. This reduction not only improved efficiency, but also reduced costs and enhanced citizen satisfaction.

Another key aspect of the rightsizing efforts was the use of digital tools and technologies to automate routine processes and improve data management. The GPR project highlighted that the lack of integration between various digital systems used by the ministry and its agencies resulted in data silos and inefficiencies in information sharing. To address this, the government developed a unified digital platform that allowed for better coordination and data management across different departments. This digital transformation was supported by extensive training programs for staff to ensure that they were equipped with the skills needed to effectively use the new systems. The integration of digital technologies has enabled the ministry to provide more efficient and transparent services to citizens while also reducing the administrative burden on staff.

Digital Transformation and Resource Optimization

Resource optimization was also a central focus of the rightsizing initiatives. The GPR project sought to address the issue of misaligned resources, where some areas of the ministry were overstaffed while others faced critical shortages. Through rightsizing, the government aimed to optimize the allocation of human and financial resources, ensuring that staffing levels were aligned with service delivery needs. This involved eliminating redundant positions, reallocating staff to high-priority areas, and introducing a more flexible organizational structure that can adapt to changing circumstances. These measures have helped reduce administrative costs and improve the overall efficiency of the ministry.

Despite the progress made, the implementation of rightsizing initiatives in Mongolia has faced several challenges. One of the main obstacles has been resistance to change from civil servants and other stakeholders. The restructuring process involved significant changes to roles and responsibilities, which led to uncertainty and concerns among staff about job security and career prospects. To mitigate this resistance, the GPR project included extensive stakeholder engagement activities, such as workshops, focus group discussions, and training sessions, to communicate the benefits of the reforms and build support for the changes. While these activities helped alleviate some concerns, resistance to change remained a persistent challenge throughout the implementation phase.

Another challenge was the complexity of coordinating rightsizing efforts across multiple agencies and levels of government. The MLSP operates through a network of regional and district offices, each with its own administrative processes and structures. Implementing a uniform rightsizing strategy across these diverse units proved to be challenging as local offices faced unique challenges and constraints that were not always addressed by the central reform plan. This lack of alignment between the central and local levels led to inconsistencies in the implementation of the reforms, with some offices achieving better results than others.

Rightsizing in Mongolia's public administration, as part of the GPR project, addresses inefficiency, resource misallocation, and complex processes through strategic re-engineering and restructuring, resulting in improved efficiency, service quality, and citizen satisfaction, and by applying lessons from the MLSP, the government aims to create a more agile, responsive, and citizen-centered administration aligned with long-term development goals.

Demand Side of Rightsizing and Restructuring: Problem Identification and Assessment

The demand for rightsizing and restructuring within Mongolia's public administration has emerged in response to the need to address systemic inefficiencies, improve service delivery, and ensure that public sector institutions are aligned with the evolving needs of citizens. Several interrelated issues

have contributed to the demand for comprehensive reforms, including bureaucratic inefficiencies, resource misalignment, and changing socioeconomic dynamics. These factors have necessitated a strategic review of existing organizational structures and processes, with the goal of creating a more streamlined and citizen-focused public administration system.

Root Causes of Administration Inefficiency

The primary driver for rightsizing and restructuring is the need to address the bureaucratic inefficiencies that have hindered the effectiveness of public administration in Mongolia. Over the years, the MLSP and its affiliated agencies have developed complex administrative processes with multiple layers of approvals, redundant steps, and overlapping responsibilities. This has led to long waiting times, increased administrative costs, and a fragmented service delivery system. Citizens often find it difficult to navigate these processes, resulting in low levels of satisfaction and a perception that the public administration system is unresponsive and cumbersome. These inefficiencies have created a pressing need for rightsizing and restructuring to eliminate redundancies, simplify processes, and improve the overall efficiency of service delivery.

Another factor contributing to the demand for rightsizing is the misalignment of resources within the public administration system. The existing organizational structure of the MLSP includes a complex network of departments and agencies, each with specific mandates and responsibilities. However, the allocation of human and financial resources has not always matched the demand for services, leading to imbalances where some areas are overstaffed while others face critical shortages. This has impacted the ministry's capacity to consistently and effectively deliver services across its network of regional and district offices. The rightsizing initiative seeks to optimize resource allocation by eliminating redundant positions, reallocating staff to high-priority areas, and ensuring that resources are used efficiently to achieve the ministry's strategic goals.

Fiscal constraints have also played a significant role in driving the demand for rightsizing and restructuring. Mongolia's economic development has been accompanied by fluctuations in fiscal stability, which have placed pressure on the government to use public funds more effectively. The presence of overlapping functions, inefficient processes, and a lack of resource optimization within MLSP has made it difficult to achieve fiscal sustainability. Rightsizing is viewed as a way to reduce administrative costs, improve the allocation of resources, and ensure that public funds are used in a manner that maximizes value for citizens. By streamlining processes and eliminating redundancies, the government can reduce its overall expenditure while maintaining, or even enhancing, the quality of services provided.

External Pressures Driving Reform

The changing socioeconomic landscape of Mongolia has also contributed to the demand for rightsizing and restructuring. Over the past several decades, the country's demographic profile has undergone significant transformation, with an increasing number of citizens requiring social welfare and employment services. However, the MLSP's current structure and operational processes are not well-suited to meet these changing needs, resulting in gaps in service delivery and a lack of responsiveness to the specific requirements of different population groups. For example, the ministry has struggled to provide adequate support for elderly citizens, people with disabilities, and other vulnerable groups due to the complexity and inefficiency of its service delivery model. Rightsizing and restructuring are necessary to realign the ministry's structure with its service delivery needs, ensuring that it can effectively respond to the evolving social and economic conditions in the country.

The government's strategic direction, as outlined in the "Vision 2050" long-term development strategy and the "New Revival Policy," has further highlighted the need for rightsizing and restructuring. These policies emphasize the importance of creating an efficient, transparent, and results-oriented public administration system that can support sustainable development and deliver high-quality services to citizens. The existing administrative structure and processes within MLSP are not fully aligned with these strategic goals, making it difficult for the ministry to contribute effectively to the realization of national development objectives. The rightsizing initiative is intended to bring the ministry's structure

and processes in line with the government's strategic direction, creating a more agile and results-focused organization that can drive progress toward the Vision 2050 goals.

Digital transformation has also emerged as a key driver behind the demand for rightsizing and restructuring. The integration of digital tools and technologies offers opportunities to automate routine tasks, improve data management, and provide digital services to citizens. However, the current organizational structure of the MLSP has not been conducive to the effective adoption of these technologies. Many processes within the ministry are still heavily reliant on manual processing, which increases the likelihood of errors and inefficiencies. Rightsizing and restructuring are therefore critical to creating an organizational structure that can support digital transformation, enabling the ministry to leverage technology to improve service delivery, enhance transparency, and reduce administrative costs.

Despite the clear need for rightsizing and restructuring, the implementation of these initiatives has faced several challenges. Among the main obstacles has been resistance to change from civil servants and other stakeholders. The restructuring process involves significant changes to roles and responsibilities, which can create uncertainty and concerns about job security and career prospects. To address these concerns, the government has emphasized the importance of stakeholder engagement and capacity building. Extensive consultations and training programs have been conducted to communicate the benefits of the reforms, address concerns, and build support for the changes. While these activities have helped alleviate some concerns, resistance to change remains a persistent challenge that must be managed carefully to ensure the successful implementation of the reforms.

In conclusion, the demand for rightsizing and restructuring within Mongolia's public administration is driven by the need to address bureaucratic inefficiencies, optimize resource allocation, respond to changing socioeconomic conditions, and align with the government's strategic direction. The existing administrative structures and processes within MLSP are not well-suited to meet the demands of modern governance and public service delivery, thereby necessitating comprehensive reforms. By addressing these issues through rightsizing and restructuring, the government aims to create a more efficient, effective, and citizen-focused public administration system capable of supporting the country's long-term development goals. Moreover, the experience gained from the rightsizing efforts within MLSP will serve as a valuable foundation for future reforms and help build a public administration system that is capable of meeting the needs of all Mongolian citizens.

Supply Side of Rightsizing and Restructuring: Drivers and Initiatives

The supply side of rightsizing and restructuring in Mongolia's public sector, particularly within MLSP, is characterized by a series of strategic initiatives designed to optimize administrative processes, streamline organizational structures, and improve service delivery. These efforts are part of the broader GPR project, which aims to align the public sector's capacity with national development goals while improving the efficiency and effectiveness of public services.

Strategic Foundations for Reform

The implementation of these initiatives has been propelled by the necessity to address long-standing administrative inefficiencies, fiscal constraints, and the need to modernize service delivery through digital transformation. One of the primary drivers behind the rightsizing and restructuring efforts is the need to align the structure and functions of public sector organizations with the strategic objectives outlined in the "Vision 2050" goals and strategy, and the "New Revival Policy." These policies underscore the importance of a streamlined, agile, and citizen-focused public administration system that can effectively respond to the evolving needs of the population. The government of Mongolia recognized that the existing administrative structures and processes within MLSP were not adequately configured to meet these objectives, leading to inefficiencies, high administrative costs, and low levels of citizen satisfaction.

Process Optimization Breakthroughs

The comprehensive process analysis conducted under the GPR project revealed significant inefficiencies in the MLSP's administrative processes. Many of the existing workflows were found to be overly complex, involving numerous steps and redundant approvals that added little value to service delivery. These inefficiencies resulted in delays, increased administrative costs, and a fragmented service delivery system that was difficult for citizens to navigate. To address these issues, the government embarked on a process re-engineering initiative aimed at simplifying workflows, eliminating unnecessary steps, and automating routine tasks wherever possible. The process re-engineering efforts led to a reduction in the average number of steps required for service delivery from 20 to between 4 and 10, depending on the complexity of the service. This has significantly improved the efficiency of administrative processes and reduced the time and resources needed to deliver services (AGS, 2024).

A key element of the rightsizing and restructuring efforts was the use of the RACI (Responsible, Accountable, Consulted, Informed) matrix to establish clear distinction in roles and responsibilities within the ministry and its affiliated agencies. The analysis revealed numerous instances where multiple units were performing the same or similar functions, leading to confusion, duplication of efforts, and a lack of accountability. By reassessing and reassigning roles and responsibilities, the government was able to eliminate overlaps, improve coordination between units, and ensure that every function within the ministry contributed effectively to service delivery. This has resulted in a more streamlined organizational structure that is better aligned with the ministry's service delivery needs and national strategic goals.

The GPR initiative has been carefully planned and implemented with a focus on outcomes and impact, rather than just outputs. The key goals are to increase satisfaction of both citizens and public servants. Six clear and specific outcomes have been planned and are expected to be achieved (Figure 4.2).

FIGURE 4.2

EXPECTED OUTCOMES AND IMPACTS OF GOVERNMENT RIGHTSIZING INITIATIVES

GOVERNMENT PROCESS RE-ENGINEERING (GPR)

EXPECTED OUTCOME | IMPACT

Reducing steps which citizens go through, in order to get public service

Delivering **prompt** & **accessible** public service for the citizens

The **workload** of civil servants will be **balanced**

The increase of **options** & **ways** to deliver public services to the citizens

The structure & organization of public organizations will become more **optimal**

Simple and co-management

SATISFACTION

CITIZEN Satisfaction will increase

GOVERNMENT Productivity, competency, and satisfaction will increase

Source: Comprehensive Research Report on Government Process Re-engineering (2024), AGS.

In addition to role clarification, the GPR project employed a risk management framework based on ISO 31000 standards to assess and mitigate risks associated with the rightsizing initiative. The risk assessment identified a total of 980 risks across 1,019 processes, with the majority of these risks related to human errors, lack of proper documentation, and inadequate technological support. The application of the ISO 31000-based framework helped prioritize areas for reform and ensured that the restructuring initiatives were implemented in a way that minimized disruption to service delivery and maintained organizational stability.

Digital Transformation Milestones

Digital transformation has also been a key driver of the rightsizing and restructuring efforts under the GPR project. A comprehensive evaluation was conducted to assess 17 different electronic systems and

software platforms used within the ministry and its affiliated agencies. The analysis revealed that many of these systems were not well integrated, resulting in data silos, duplication of efforts, and inefficiencies in information sharing. To address these issues, the government developed a unified digital platform to facilitate information sharing, improve data accuracy, and provide digital services to citizens. The integration of these digital tools and systems has enabled the ministry to automate many routine processes, reduce manual workloads, and deliver services more efficiently and effectively (AGS, 2024).

Human Capital and Legal Enablers

Capacity building and training were also integral components of the rightsizing initiative. The government recognized that the success of the reforms would depend on the ability of public officials to adapt to new processes and systems. As a result, training programs were introduced to enhance the skills and competencies of public officials, focusing on modern management practices, risk management, and customer service. These capacity-building efforts have helped ensure that public officials are equipped with the knowledge and skills needed to support the successful implementation of the rightsizing initiatives.

Another significant initiative was the establishment of centralized service centers to handle routine administrative tasks, such as document verification and processing. These centralized service centers have allowed regional offices to focus on more complex cases and have reduced the administrative burden on local staff. The centralized service model has proven to be highly effective in improving service delivery, reducing waiting times, and making services more accessible to citizens.

The government also introduced several policy reforms and legal changes to support the implementation of new service delivery models. These reforms included amendments to existing laws and regulations to eliminate overlaps, clarify roles and responsibilities, and streamline decision-making processes. The legal changes were necessary to create an enabling environment for the implementation of the rightsizing and restructuring initiatives, and to ensure that the reforms were sustainable over the long term.

Stakeholder Engagement and Impact

Stakeholder engagement and consultation were crucial components of the rightsizing process. The GPR project involved extensive consultations with civil servants, local officials, and citizens to gather input and feedback on the proposed changes. Multiple workshops and focus group discussions were held to build consensus around the reforms and ensure that the initiatives were aligned with the needs and expectations of all stakeholders. This inclusive approach helped build support for the reforms and facilitated their successful implementation.

The government also implemented a unified performance management framework to track the progress of the rightsizing initiatives and ensure alignment with strategic goals. This framework focuses on measuring outcomes rather than inputs, with an emphasis on efficiency, citizen satisfaction, and service quality. Regular monitoring and evaluation have enabled the government to track progress, identify areas for improvement, and make data-driven decisions to optimize service delivery.

The impact of the rightsizing and restructuring initiatives has been significant. The reduction in process steps has improved the efficiency of service delivery and reduced administrative costs. The elimination of redundant functions and better alignment of roles and responsibilities have enhanced governance and accountability within the ministry. The integration of digital systems has supported the ministry's digital transformation efforts and enabled the delivery of high-quality digital services to citizens. Furthermore, the centralized service centers have made services more accessible and reduced waiting times, resulting in higher levels of citizen satisfaction.

In essence, the rightsizing and restructuring initiatives implemented as part of the GPR project have set the foundation for a more efficient, effective, and citizen-oriented public administration system in Mongolia. The government's commitment to modernizing public services and aligning the public sector's capacity with national development goals has been evident throughout the process. By

addressing process inefficiencies, optimizing resources, and leveraging digital technologies, the rightsizing initiatives have contributed to the overall transformation of Mongolia's public sector and positioned it to better respond to the needs of citizens in the future.

In summary, the supply side of rightsizing and restructuring in Mongolia's public sector has involved a comprehensive set of initiatives aimed at improving efficiency, enhancing service quality, and creating a more responsive public administration system. The GPR project has demonstrated the government's commitment to building a modern, citizen-centric administration that can effectively support the country's long-term development goals. These initiatives have set the stage for continued reforms and have provided valuable lessons for future efforts to optimize the structure and capacity of public sector organizations in Mongolia.

Locus, Focus, and Actors in Rightsizing and Restructuring Initiatives

The rightsizing and restructuring initiatives undertaken in Mongolia's public administration have involved multiple layers of actors and stakeholders, each playing a crucial role in the design, implementation, and oversight of these reforms. Understanding the locus and focus of these initiatives is essential for contextualizing the scope and direction of the changes as well as for analyzing the roles and responsibilities of the key actors involved.

Stakeholder Roles in Reform Dynamics

i)   **MLSP's pilot role**

The locus of the rightsizing and restructuring initiatives primarily revolves around the MLSP and its affiliated agencies, most notably the General Department of Social Insurance and the General Department of Employment and Welfare Services. As the central ministry responsible for delivering a wide range of social welfare and employment services to citizens, the MLSP was selected as the pilot institution for the GPR project. The choice of MLSP as the focal point of these reforms was based on its extensive mandate, complex administrative structure, and the critical role it plays in the socioeconomic development of Mongolia. Given the breadth and complexity of its functions, the MLSP provided a unique testing ground for rightsizing and restructuring, offering valuable insights into how similar reforms could be replicated across other sectors of the government.

The focus was to streamline administrative processes, eliminate redundancies, and improve the alignment of roles and responsibilities within the ministry. The overall objective was to create a more efficient, agile, and citizen-oriented organization capable of delivering high-quality services in a timely and cost-effective manner. These initiatives sought to address several key issues identified through comprehensive process analysis, including bureaucratic bottlenecks, overlapping functions, and a misalignment between MLSP's organizational structure and its service delivery needs.

ii)   **AGS coordination as an oversight body**

The AGS played a central role in coordinating the rightsizing and restructuring efforts. As the principal body responsible for overseeing public administration reforms, the agency provided strategic guidance, technical support, and monitoring throughout the implementation of the GPR project. Its involvement ensured that the reforms were aligned with national policy objectives and adhered to international best practices. The agency's role included conducting comprehensive process analyses, developing new organizational structures, and providing recommendations for policy changes needed to support the reforms.

iii)   Local implementation units

Local government units, including provincial and district offices of the MLSP, were also actively involved in the rightsizing and restructuring initiatives. These offices served as the frontline implementers of the new processes and systems and provided critical feedback on the practical implications of the changes. Their role was particularly important in piloting and testing the reengineered processes, identifying challenges and bottlenecks, and suggesting refinements based on their experience. The active engagement of local government units helped ensure that the reforms were not only effective at the central level but also translated into tangible improvements in service delivery at the local level.

iv)   Civil servant engagement

Civil servants and employees within MLSP and its affiliated agencies were key factors in the implementation of the rightsizing initiatives. Their participation was critical in ensuring that the reforms were understood, accepted, and successfully integrated into the daily operations of the ministry. To build support for the reforms, the GPR project included extensive stakeholder engagement and capacity building activities, including training sessions on the new processes, roles, and responsibilities. By equipping employees with the necessary skills and knowledge, the government was able to mitigate resistance to change and foster a culture of continuous improvement.

v)   Citizen-centric feedback

Citizens and service beneficiaries also played an indirect but significant role in the rightsizing and restructuring initiatives. Their feedback, gathered through surveys, focus group discussions, and public consultations, provided valuable insights into the strengths and weaknesses of the existing service delivery model. The input from citizens was instrumental in shaping the design of the re-engineered processes and ensured that the reforms were responsive to the needs and expectations of service users. The emphasis on citizen satisfaction as a key performance indicator of the rightsizing initiatives reflects the government's commitment to creating a more transparent and accountable public administration system.

The successful implementation of the rightsizing and restructuring initiatives required effective coordination and collaboration among these diverse actors. The AGS, in its role as the principal coordinator, ensured that all stakeholders were engaged throughout the process and that their roles and responsibilities were clearly defined. The authority also facilitated regular communication and information sharing among stakeholders, enabling a collaborative approach to problem-solving and decision-making.

Despite the active involvement of various actors, the rightsizing and restructuring initiatives faced several challenges. Resistance to change from some civil servants, difficulties in coordinating reforms across multiple agencies, and the need for continuous training and capacity building were among the key issues encountered during the implementation process. However, these challenges also provided valuable lessons for future reforms, highlighting the importance of sustained leadership, stakeholder engagement, and flexibility in adapting to changing circumstances.

Overall, the locus and focus of the rightsizing and restructuring initiatives in Mongolia's public administration were centered on the MLSP, with a clear objective of creating a more efficient, agile, and citizen-oriented organization. The successful implementation of these initiatives required the active participation of a diverse group of actors, including government oversight bodies, technical advisors, local government units, international partners, civil servants, and citizens. The collaboration and coordination among these actors were instrumental in driving the reforms forward and achieving the desired outcomes. By building on the lessons learned from these initiatives, the government can continue to refine and expand its rightsizing efforts, contributing to the overall modernization and transformation of Mongolia's public administration system.

Success and Failure of Rightsizing

The rightsizing and restructuring efforts within Mongolia's public administration, particularly in the MLSP, have produced varied results, reflecting both successes and challenges. The outcomes of these efforts provide valuable lessons on the factors that contribute to the success or failure of such initiatives. Understanding these factors is essential for informing future reforms and ensuring the sustainability of the changes made. The success and failure cases of the rightsizing initiatives can be analyzed based on specific processes and organizational reforms undertaken during the GPR project.

Key Success Factors

i)   Process optimization breakthroughs

The success of rightsizing in the MLSP was largely driven by a combination of strong leadership, a comprehensive approach to process analysis, and active stakeholder engagement. One of the most notable successes was the significant reduction in bureaucratic bottlenecks through process simplification and re-engineering. The GPR project identified that many services involved an average of 20 process steps, many of which were redundant and contributed to long waiting times and high administrative costs. By applying the principles of business process re-engineering (BPR) and eliminating unnecessary steps, the ministry was able to streamline these processes, reducing the number of steps required for service delivery to between four and ten. This reduction not only improved the efficiency of service delivery but also increased citizen satisfaction by making services more accessible and reducing waiting times (AGS, 2024).

ii)   Digital transformation milestones

Another critical success factor was the use of digital tools and technologies to support the restructuring efforts. The integration of digital systems and the development of a unified platform for information sharing enabled the ministry to automate routine tasks and improve data accuracy. This digital transformation was supported by extensive capacity-building programs for staff, ensuring that they were equipped with the necessary skills and knowledge to use the new systems effectively. The successful implementation of digital solutions contributed to greater transparency and accountability within the ministry as well as more efficient service delivery (MLSP, 2024, p. 78).

iii)   Strategic oversight by AGS

The overall success of the rightsizing initiative was also facilitated by the AGS, which provided strategic guidance and technical support throughout the process. As the central body responsible for overseeing public sector modernization, the agency played a pivotal role in ensuring that the reforms were aligned with national development priorities and that best practices in public administration were followed. This coordination and oversight helped mitigate risks and address challenges that emerged during the implementation phase, contributing to the overall success of the initiative.

Key Challenge Factors

i)   Resistance to change

However, the rightsizing and restructuring efforts were not without their challenges and failures. One of the key failure factors was resistance to change among some civil servants and stakeholders. The restructuring process involved significant changes to roles and responsibilities, which led to uncertainty and concerns among staff about job security and career prospects. This resistance was particularly pronounced in cases where roles were merged or eliminated, leading to feelings of disenfranchisement and a lack of motivation among some employees. To address this issue, the GPR project included various stakeholder engagement activities, such as workshops, focus group discussions, and training sessions, to communicate the benefits of the reforms and build support

for the changes. While these activities helped alleviate some concerns, resistance to change remained a persistent challenge throughout the implementation phase (AGS, 2024, p. 89).

ii)   Fragmented local implementation

Another factor that contributed to the failure of certain aspects of the rightsizing initiative was the complexity of coordinating reforms across multiple agencies and levels of government. The MLSP operates through a network of regional and district offices, each with its own administrative processes and structures. Implementing a uniform restructuring strategy across these diverse units proved to be difficult, as local offices faced unique challenges and constraints that were not always addressed by the central reform plan. This lack of alignment between the central and local levels led to inconsistencies in the implementation of the reforms, with some offices achieving better results than others. The inability to tailor the reforms to the specific needs of local offices resulted in varying levels of success and, in some cases, a failure to achieve the desired outcomes.

iii)   Technology integration gaps

According to the implementation team report from AGS, another notable failure was the lack of integration between the various digital systems used within the ministry. While the GPR project successfully developed a unified digital platform, many of the existing systems were not compatible with the new platform, leading to data silos and inefficiencies in information sharing. This issue was exacerbated by the limited technical capacity of some local offices, which struggled to adopt the new systems and processes. As a result, the full benefits of digital transformation were not realized in all areas, and some of the anticipated improvements in efficiency and service quality were not achieved.

iv)   Resource constraints

Resource constraints also emerged as a significant barrier to the successful implementation of the rightsizing initiatives. The restructuring process required substantial investments in training programs, technological infrastructure, and process redesign. However, due to budgetary limitations, the government was unable to allocate sufficient resources to support these activities fully. This led to delays in implementation, reduced the scope of some reforms, and limited the overall impact of the rightsizing efforts. For example, the planned rollout of new digital systems was scaled back in certain regions due to a lack of funding for necessary hardware and software upgrades.
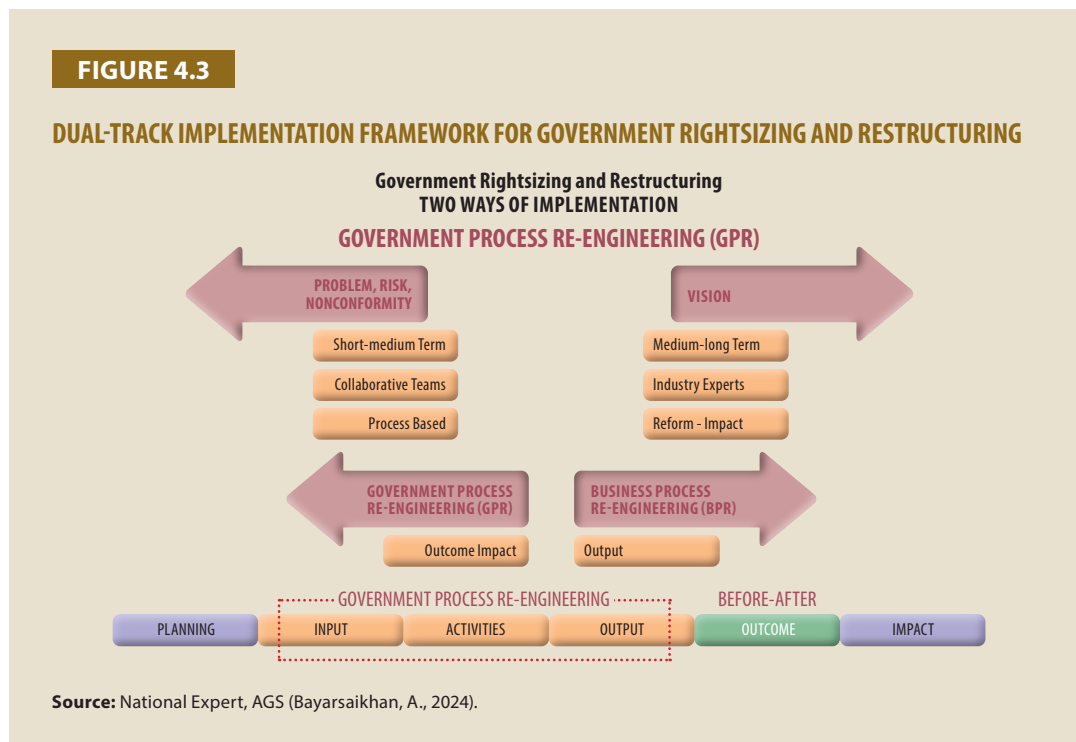
v)   Weak monitoring and evaluation

A final failure factor was the inadequate monitoring and evaluation of the restructuring initiatives. While the GPR project established a set of key performance indicators (KPIs) to track the progress of the reforms, the monitoring and evaluation framework was not robust enough to provide timely feedback on the effectiveness of the changes. This lack of real-time data made it difficult for the government to identify and address emerging issues, leading to delays in corrective actions and, in some cases, a failure to achieve the intended outcomes. The absence of a comprehensive evaluation framework also limited the ability of the government to learn from the implementation process and apply those lessons to future reforms.

Taken together, the cases of both success and failure in the rightsizing and restructuring initiatives in Mongolia's public administration highlight the importance of strong leadership, effective stakeholder engagement, and the integration of digital tools and technologies in achieving successful outcomes. At the same time, the challenges encountered, including resistance to change, coordination difficulties, resource constraints, and inadequate monitoring and evaluation, underscored the complexities involved in implementing large-scale administrative reforms. By addressing these challenges and building on the successes achieved, the government can continue to refine its rightsizing efforts and create a more efficient, effective, and citizen-centered public administration system.

Recommendations and Conclusions

The rightsizing and restructuring initiatives undertaken within MLSP and its affiliated agencies in Mongolia have generated several valuable insights and lessons that can inform and guide future reforms across other sectors of the public administration. Based on the outcomes of the GPR project, several recommendations can be made to ensure the sustainability of these reforms and to build on the progress achieved thus far.

FIGURE 4.3

DUAL-TRACK IMPLEMENTATION FRAMEWORK FOR GOVERNMENT RIGHTSIZING AND RESTRUCTURING

**Government Rightsizing and Restructuring
TWO WAYS OF IMPLEMENTATION**

GOVERNMENT PROCESS RE-ENGINEERING (GPR)

PROBLEM, RISK, NONCONFORMITY

VISION

Short-medium Term — Medium-long Term
Collaborative Teams — Industry Experts
Process Based — Reform - Impact

GOVERNMENT PROCESS RE-ENGINEERING (GPR)

BUSINESS PROCESS RE-ENGINEERING (BPR)

Outcome Impact — Output

GOVERNMENT PROCESS RE-ENGINEERING — BEFORE-AFTER

PLANNING | INPUT | ACTIVITIES | OUTPUT | OUTCOME | IMPACT

Source: National Expert, AGS (Bayarsaikhan, A., 2024).

Key Recommendations

i)   **Strategic approaches to GPR implementation**

Based on Mongolia's experience, GPR has proven to be a highly effective and valuable initiative for achieving long-term government rightsizing policy goals. GPR can be carried out using two approaches: one focused on solving existing problems, risks, and nonconformities, and the other that is guided by a future-oriented vision. The choice between these approaches depends on the government's current situation and needs, with factors, such as available time, human resources, and expert commitment, playing a significant role. Unlike BPR, which emphasizes outputs and efficiency, GPR is centered on outcomes and impact, aiming to improve public service quality and satisfaction for both citizens and public servants. Additionally, monitoring and evaluation are crucial, focusing on outcomes by comparing performance before and after implementation. This process audit stage is a vital mechanism within the GPR framework, ensuring that reforms are effectively implemented and deliver meaningful, long-term results aligned with the government's strategic goals.

ii)   **Aligning structures with service delivery**

One of the primary recommendations is to continue focusing on strengthening the alignment between organizational structures and service delivery needs. The GPR project demonstrated that many inefficiencies within the ministry stemmed from a misalignment between the existing organizational setup and the actual demands of service delivery. To address this issue, it is

essential to periodically review and assess the structure of the ministry and its affiliated agencies, making adjustments as needed to ensure that roles and responsibilities are clearly defined and that resources are allocated effectively. This will help maintain a streamlined and efficient organizational structure that can adapt to changing social and economic conditions.

iii) Accelerating digital integration

Another important recommendation is to enhance the integration of digital tools and technologies in service delivery. While the GPR project successfully introduced a unified digital platform and automated several routine processes, there is still room for improvement in terms of integrating various legacy systems and ensuring that all offices have the technical capacity to fully utilize the new digital solutions. The government should continue to invest in digital transformation by upgrading existing systems, providing technical training for staff, and ensuring that all offices are equipped with the necessary hardware and software to support digital service delivery. This will not only improve efficiency and reduce manual workloads but also enhance transparency and accountability within the ministry.

iv) Strengthening monitoring and evaluation

The government should also prioritize building a robust monitoring and evaluation framework to track the progress of the rightsizing and restructuring initiatives. The GPR project established a set of KPIs to measure the effectiveness of the reforms; however, the implementation of the monitoring and evaluation framework was limited by a lack of real-time data and insufficient capacity for continuous evaluation. To address these shortcomings, the government should develop a more comprehensive monitoring and evaluation system that includes regular data collection, real-time feedback mechanisms, and the ability to conduct impact assessments. This will enable the government to identify and address any emerging challenges in a timely manner and ensure that the reforms are achieving the intended outcomes.

v) Sustaining stakeholder engagement

In addition, stakeholder engagement should remain a central component of future rightsizing efforts. One of the successes of the GPR project was the extensive consultation and engagement with various stakeholders, including civil servants, local officials, and citizens. This inclusive approach helped build support for the reforms and ensured that the changes were aligned with the needs and expectations of those affected. Moving forward, the government should continue to engage stakeholders throughout the implementation of new reforms, using participatory methods, such as focus group discussions, surveys, and public consultations. This will help maintain transparency, foster trust, and encourage active participation in the reform process.

vi) Investing in continuous capacity building

Capacity building and training are also critical areas that require ongoing attention. The success of rightsizing and restructuring initiatives is heavily reliant on the ability of public officials to adapt to new processes and systems. The GPR project included several capacity-building activities, but further training is needed to deepen the understanding of modern management practices, digital literacy, and customer service skills. The government should develop a comprehensive training program that provides continuous learning opportunities for public officials, enabling them to stay updated on the latest developments in public administration and to effectively implement the reforms.

vii) Ensuring financial sustainability

Another key recommendation is to ensure that the reforms are financially sustainable over the long term. The rightsizing and restructuring initiatives require significant investments in process redesign, technology, and capacity building. To sustain these efforts, the government must ensure

that sufficient financial resources are allocated for the implementation and maintenance of the reforms. This includes budgeting for ongoing training, system upgrades, and monitoring and evaluation activities. By securing the necessary funding, the government can prevent the reforms from losing momentum and ensure that the benefits of the restructuring are fully realized (Ministry of Finance, 2024, p. 95).

viii) Scaling success across sectors

The government should also explore opportunities to replicate successful elements of the rightsizing initiatives across other ministries and sectors. The GPR project in the MLSP has demonstrated that comprehensive process re-engineering and restructuring can lead to significant improvements in efficiency, service quality, and citizen satisfaction. By applying the lessons learned from this project, the government can identify areas in other ministries where similar reforms may be beneficial. This will help create a more cohesive and efficient public administration system that is capable of delivering high-quality services across all sectors.

Conclusion

In summary, the rightsizing and restructuring initiatives undertaken in Mongolia's public administration have provided a solid foundation for modernizing the public sector and improving service delivery. The success of these initiatives was driven by a clear focus on process reengineering, digital transformation, and stakeholder engagement while the challenges encountered highlight the complexities of implementing large-scale administrative reforms (AGS, 2024, p. 112). By building on these successes and addressing the challenges through targeted recommendations, the government can continue to enhance the efficiency and effectiveness of the public administration system, ultimately contributing to the achievement of Mongolia's long-term development goals. The experience gained from the GPR project serves as a valuable resource for future reform efforts, providing a blueprint for creating a more agile, responsive, simplified, and citizen-oriented public administration in Mongolia.

Appendices

Part 1. Selecting Cases and Outlining Research Project

The national study focuses on the most successful government rightsizing and restructuring project in Mongolia, which is the Government Process Re-engineering (GPR) initiative, led by the Authority of Mongolian Government Supervisory. This project was selected for its outstanding achievements in streamlining public administration, optimizing resource allocation, and improving service delivery. The GPR initiative stands as a model of effective government restructuring, setting a benchmark for similar reforms across other sectors in Mongolia. Its success underscores the significance of comprehensive process re-engineering, which was analyzed through more than eight different perspectives and methods, in creating a more efficient, transparent, and citizen-focused administration.

Rationale and Drivers for Rightsizing Initiatives in Mongolia

The rationale for rightsizing in Mongolia is rooted in the realization that the existing administrative structure is not optimally configured to meet the demands of modern governance and public service delivery. Several key factors have contributed to the need for rightsizing:

1. **Bureaucratic inefficiencies and redundancies** - Over the years, the Ministry of Labor and Social Protection (MLSP) and its agencies have accumulated a complex web of processes, roles, and responsibilities that often overlap and create inefficiencies. This has led to a cumbersome administrative system where decision-making is slow, service delivery is fragmented, and resources are not utilized effectively. For example, the report identified that many services within the MLSP involve up to 20 steps, many of which could be streamlined or eliminated to reduce processing times and costs.

2. **Changing demographics and social needs** - Mongolia's demographic profile has shifted significantly over the past few decades, with an increasing number of citizens requiring social welfare and employment services. The Ministry's current structure and processes are not equipped to handle these changes effectively, necessitating a realignment of functions and roles to better serve the population.

3. **Fiscal constraints** - With limited financial resources, the government must ensure that every unit and function within the MLSP is necessary and adds value to service delivery. Rightsizing is seen as a way to reduce unnecessary expenditures and reallocate resources to areas where they are most needed.

4. **Alignment with international standards and best practices** - The Government Oversight and Implementation Agency, along with international partners, has recommended that the MLSP align its processes and structure with global standards, such as ISO 31000 for risk management and best practices in organizational design. This alignment is expected to enhance transparency, accountability, and overall performance.

5. **Digital transformation and technological advances** - The advent of new technologies and digital tools offers opportunities to automate many routine processes, reduce manual workloads, and improve data management. However, the current structure of the MLSP is not conducive to leveraging these technologies effectively, making rightsizing a necessary step to enable digital transformation.

6. **Policy shifts and strategic directions** - The government's long-term national policy, such as "New Revival Policy" and "Vision 2050" policy, and respective strategies have set forth new priorities for public administration, emphasizing efficiency, transparency, and citizen satisfaction. Rightsizing the MLSP is part of a broader effort to ensure that the public sector is aligned with these strategic goals and can contribute to their achievement.

Part 2. Preparing Background Sketch

Goals and Objectives of Rightsizing Initiative "GPR"

The primary goal of the rightsizing initiative is to create a public administration system that is lean, efficient, and capable of delivering high-quality services in a timely manner. The specific objectives of the rightsizing initiative in Mongolia include:

1. **Eliminating redundant functions** - Identify and eliminate functions that are duplicated across different agencies or units within the MLSP. This will reduce confusion, improve coordination, and enhance overall efficiency.

2. **Optimizing human resources** - Reallocate staff based on demand for services and organizational needs. This involves reducing overstaffing in some areas while strengthening capacity in others that are understaffed or critical to achieving strategic goals.

3. **Improving service delivery** - Streamline processes to reduce the time and cost of delivering services to citizens. This includes simplifying workflows, reducing the number of steps required to complete a process, and eliminating unnecessary documentation requirements.

4. **Enhancing accountability and governance** - Clarify roles and responsibilities to eliminate ambiguity and improve accountability. This will enable better monitoring and evaluation of performance and ensure that every unit and individual contribute effectively to the Ministry's objectives.

5. **Facilitating digital transformation** - Create an organizational structure that is conducive to the adoption of digital tools and technologies. This includes integrating digital systems, improving data management, and leveraging technology to enhance service delivery.

6. **Increasing citizen satisfaction** - Rightsizing is expected to lead to more responsive and accessible services, thereby improving citizen satisfaction. By reducing bureaucratic barriers and streamlining processes, the Ministry can better meet the needs of the public.

Methodology and Approaches used for Government Rightsizing Initiative "GPR"

The GPR project in Mongolia applied a comprehensive and systematic approach to implement rightsizing and restructuring within the public administration system, particularly in the MLSP. The approach encompassed several key steps and methodologies, including satisfaction surveys for citizens and public officials, functional analysis, risk assessment, process analysis, IT system analysis and integration, internal and external observations, cost-benefit analysis, and root cause analysis. Each of these methodologies was designed to identify inefficiencies, optimize processes, and ensure the alignment of organizational functions with national development goals.

The following elaborates on the methodologies and approaches used in the GPR project based on the detailed analysis and reports provided.

1. **Satisfaction indexes for citizens and public officials**

    The satisfaction indexes aimed to gauge the perspectives of both citizens and public officials regarding the efficiency and quality of public services. Extensive surveys and focus group discussions were conducted to gather feedback from 1,730 public officials and 430 citizens across various regions and agencies. The satisfaction surveys assessed elements, such as service accessibility, responsiveness, and overall satisfaction with government services. The insights gained from these surveys were used to identify areas where services were not meeting expectations and to propose specific changes that would enhance the user experience. The satisfaction index serves as a critical performance indicator in measuring the success of the rightsizing and restructuring initiatives and in monitoring ongoing improvements.

2. **Functional analysis**

Functional analysis was employed to evaluate the roles and responsibilities of the different departments and units within the MLSP and its affiliated agencies. Using the RACI (Responsible, Accountable, Consulted, Informed) matrix, the GPR project mapped out the existing functional structure and identified overlaps, gaps, and ambiguities in role allocation. This analysis helped pinpoint functions that were redundant or misaligned with the Ministry's strategic objectives. By addressing these overlaps and optimizing the distribution of functions, the GPR project aimed to eliminate unnecessary bureaucratic layers and streamline decision-making processes.

3. **Risk assessment and evaluation**

Risk assessment was a key component of the GPR project, aimed at identifying potential risks and vulnerabilities associated with the existing processes and organizational structure. The project applied the ISO 31000-based risk management framework to evaluate 1,019 processes and identified a total of 980 risks, including those related to human errors, lack of proper documentation, and inadequate technological support. The risk assessment helped prioritize areas for reform and guided the development of strategies to mitigate these risks. The assessment also facilitated the design of a more resilient and risk-aware organizational structure that could effectively manage potential disruptions during the implementation of the rightsizing initiatives.

4. **Process analysis and mapping (as-is and to-be)**

Process analysis was a cornerstone of the GPR project, focusing on the detailed mapping and evaluation of 211 services provided by the MLSP. Using methodologies, such as Business Process Model and Notation (BPMN 2.0) and the Fishbone Diagram analysis, the project team mapped out the "as-is" processes to identify bottlenecks, redundancies, and inefficiencies. The analysis revealed that many services involved up to 20 process steps, which contributed to delays and increased administrative costs. By applying process re-engineering techniques, the number of steps required for service delivery was reduced to between 4 and 10, depending on the complexity of the service. This simplification not only improved efficiency but also reduced the administrative burden on staff and enhanced the overall quality of services delivered to citizens.

5. **IT system analysis and integration**

The GPR project conducted an in-depth analysis of 17 different digital systems and software used within the MLSP and its affiliated agencies. The analysis aimed to evaluate the compatibility and integration capabilities of these systems to support a unified digital platform. The project identified data silos and inefficiencies in information sharing as major issues and proposed the development of a centralized digital platform that would enable better coordination and real-time data management across different departments. This initiative was supported by capacity-building programs to ensure that staff were equipped with the skills needed to use the new digital systems effectively.

6. **Internal and external observations**

Observational studies were carried out both internally and externally to assess the actual workflow and interactions within and between different units of the MLSP. These observations provided qualitative data on how processes were executed in practice, highlighting discrepancies between documented procedures and actual practices. Observations were conducted at multiple levels, including regional and district offices, to ensure that the analysis captured the full spectrum of challenges and bottlenecks faced by the Ministry. The findings from these observations were used to refine the process re-engineering strategies and ensure that proposed changes were grounded in real-world conditions.

7. **Cost-benefit analysis**

The GPR project included a cost-benefit analysis to evaluate the financial implications of the proposed rightsizing and restructuring initiatives. The analysis covered both direct and indirect costs, including those related to staffing, technology upgrades, and process re-engineering. The cost-benefit analysis compared the anticipated savings from eliminating redundant positions and optimizing resource allocation against the costs of implementing the changes. This analysis provided a clear picture of the potential return on investment and helped justify the need for the rightsizing initiatives to policymakers and stakeholders.

8. **Root cause analysis**

Root cause analysis was used to identify the underlying causes of inefficiencies and performance issues within the Ministry. The GPR project employed tools, such as the "5 Whys" and the Ishikawa Diagram (Fishbone Diagram), to systematically investigate problems and determine their root causes. The findings from this analysis resulted in the development of targeted interventions to address these issues at their source, rather than merely treating the symptoms. This approach ensured that the restructuring initiatives would have a lasting impact and contribute to the sustainable improvement of service delivery.

Overall Impact of the Methodologies

The combined application of these methodologies provided a holistic view of the existing challenges within the MLSP and facilitated the design of a comprehensive rightsizing and restructuring strategy. By addressing both structural and process-related issues, the GPR project laid the groundwork for a more efficient, responsive, and citizen-centered public administration system. The methodologies used in the project not only supported the identification of problems but also guided the development of practical solutions that could be implemented within the existing organizational and legal frameworks.

In conclusion, the methodologies and approaches used in the rightsizing initiative in Mongolia's public administration reflect a commitment to evidence-based decision-making and continuous improvement. The integration of quantitative and qualitative analysis, combined with stakeholder engagement and capacity building, has positioned the Ministry to better respond to the needs of citizens and contribute to the achievement of national development goals. By building on these methodologies, the government can ensure the sustainability of the rightsizing efforts and continue to enhance the effectiveness and efficiency of its public administration system.

The rightsizing initiative was carried out using a comprehensive and systematic approach, involving several key steps.

Key Outcomes of the Rightsizing Successful Initiative in Mongolia

The rightsizing initiative within the MLSP has led to several key outcomes:

1. **Reduction in process steps** - The average number of steps required for service delivery was reduced from 20 to between 4 and 10, depending on the complexity of the service. This has significantly reduced processing times and improved service efficiency.

2. **Elimination of redundant functions** - Over 65 services within the MLSP were found to have overlapping functions, which were consolidated or eliminated. This has led to a more streamlined organizational structure and better resource allocation. The Mongolian government has decided to eliminate the Capital City Authority Departments within two implementing agencies as part of its rightsizing and restructuring initiative. This decision aims to streamline operations, reduce redundancies, and optimize resource utilization by reallocating resources to district offices where they are most needed. The move is expected to enhance service delivery efficiency, lower administrative costs, and create a more cohesive, citizen-centered organizational structure that better aligns with national development goals.

3. **Improved service accessibility** - The elimination of unnecessary documentation requirements and the simplification of processes have made it easier for citizens to access services. This has resulted in higher levels of citizen satisfaction and reduced waiting times.

4. **Enhanced digital integration** - The integration of digital systems and the development of a unified digital platform have improved data sharing and management across the Ministry. This has enabled more efficient service delivery and better decision-making.

5. **Resource optimization** - The reallocation of staff based on demand and priority areas has led to a more balanced distribution of human resources. Areas that were previously understaffed have been strengthened while redundant positions have been eliminated.

6. **Increased accountability and transparency** - The clarification of roles and responsibilities has improved governance and accountability within the Ministry. This has enabled better performance monitoring and evaluation.

Challenges and Lessons Learned during Government Rightsizing Initiative "GPR"

The rightsizing initiative has not been without its challenges. Resistance to change from both employees and citizens, the complexity of coordinating reforms across multiple agencies, and the need for continuous training and capacity building have been significant hurdles. However, these challenges have also provided valuable lessons for future reforms:

1. **Importance of stakeholder engagement** - Engaging stakeholders from the outset and maintaining open lines of communication throughout the process is crucial for building support and ensuring successful implementation.

2. **Flexibility and adaptability** - The ability to adapt to changing circumstances and refine processes based on feedback is essential for the success of any rightsizing initiative.

3. **Sustained leadership and commitment** - Strong leadership and sustained commitment from senior government officials are key to overcoming resistance and ensuring that the reforms are implemented effectively.

Rightsizing in Mongolia's public administration, particularly within the MLSP, has been a complex but necessary initiative aimed at creating a more efficient, effective, and citizen-oriented government. The lessons learned from this process will inform future rightsizing efforts across other sectors, contributing to the overall modernization and transformation of Mongolia's public administration system.

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Note:
This report is based entirely on the author's personal research, professional experience, and direct involvement in government rightsizing and restructuring initiatives in Mongolia. All data, analysis, and insights presented here are derived from the author's work as a National Expert in this field.

NEPAL'S PUBLIC SECTOR REFORM – EVALUATING RIGHTSIZING AND RESTRUCTURING FOR EFFECTIVE GOVERNANCE

Abstract

This research examines the challenges and opportunities associated with the rightsizing and restructuring of the bureaucratic system in Nepal with a particular focus on the context of federalism adopted in 2015. The study highlights the inefficiencies of Nepal's bureaucratic system, which is characterized by delays, rigid structures, and resistance to change that hinder effective public service delivery. Rightsizing is proposed as a strategic approach at streamlining government operations, reduce redundancies, and optimize resource allocation across federal, provincial, and local governments.

The research identifies both successes and failures in Nepal's restructuring efforts, with local level governments emerging as a success story due to their improved service delivery and administrative efficiency. In contrast, the public health sector is presented as a case of failure, marked by unequal resource distribution and inadequate service provision in rural areas. The study underscores the need for comprehensive reforms, including the timely adoption of the Federal Civil Service Act, political consensus on restructuring, and clear delineation of roles among government tiers.

Recommendations include merging of redundant agencies, the enhancement of both financial and human resources for local governments, and prioritizing health sector reforms to ensure equitable service delivery. The findings emphasize that effective rightsizing and restructuring are critical for Nepal's governance, economic development, and the successful implementation of federalism. The recommendations put forth by various administrative reform commissions and committees must be implemented by the government to reduce inefficiencies and ineffectiveness within the country's bureaucratic system.

Introduction

Bureaucratic administration is the organizational system responsible for the formulation and implementation of government policies and programs. Bureaucracy works together with elected representatives of the people while materializing these policies and programs. While political leadership provides the overarching policy direction and the broader vision, the bureaucracy is entrusted with the responsibility of organizing and implementing this vision and policy through government agencies and mechanisms. Bureaucracy has hierarchical structure, specialized work divisions, and adherence to formal rules and regulations.

Bureaucracies, particularly in developing countries, face many challenges that hinder their efficiency and effectiveness. Delays in decision making, excessive procedures, resistance to change, and rigid structure are common characteristics of bureaucracy. As a result, bureaucratic restructuring and

rightsizing have emerged as major concern of many countries, including Nepal, due to inefficiency and low performance of bureaucratic system.

Rightsizing can be understood as a public sector reform strategy deeply rooted in the principles of the New Public Management (NPM), a theoretical framework that emerged in the late 20th century to address the criticisms of conventional bureaucratic practices (Panday, 2019). NPM advocates for the adoption of private sector management techniques within the public sector to enhance efficiency, effectiveness, and responsiveness. It emphasizes core principles, such as competition, performance measurement, and a results-oriented approach to public service delivery to optimize the size and structure of government agencies to achieve efficiency and cost effectiveness. Rightsizing process usually involves mechanism for downsizing, restructuring, or even eliminating redundant roles and functions, with the main objective of streamlining operations, reducing public expenditure, minimizing bureaucratic inefficiencies, and improving service delivery.

Following the promulgation of the Constitution of Nepal in 2015, the government of Nepal has initiated the sharing of power and functions among the federal government, seven province governments, and 753 local governments. This transition was supported by a series of appropriate legislation and institutional structures with the objective to implement and institutionalize federalism (The World Bank, 2019). Despite various efforts, Nepal continues to face long-term challenges in managing the transition to a federal system, which has had adverse consequences for both public service delivery and the quality of spending (Yilmaz et al., 2020). Furthermore, there exists a gap between the needs of the federal governance model and the existing administrative capacity, even though much efforts were put in the legislation reform and the strengthening of the regulatory environment for federalism. The legal and regulatory frameworks provisioned in the constitution are yet to be fully implemented (The World Bank, 2019).

Nepal has a three-tiered government structure consisting of the federal government, provincial governments, and local governments (Chaudhary, 2019). The Constitution of Nepal (2015) clearly delineates the roles and responsibilities of each government unit (Government of Nepal, 2015). Based on the provisions of the constitution, all three levels of the government maintain their own bureaucratic structures in their respective mandates (Khanal, 2024). The Constitution of Nepal explicitly outlines policies relating to the political and governance system of the state. These constitutional provision (Government of Nepal, 2015) consists policies to promote good governance and sharing of administration between the three tiers of governments.

The federal government, which is the government of Nepal, is the highest level of administration with key ministries, departments, and agencies. It is primarily responsible for formulating national policies, laws, and regulations, and it also provides some important public goods and services. Despite the establishment of a federal structure and the redistribution of civil servants across the three tiers of government, the federal government continues to retain the largest bureaucratic structure and manpower and still holds the majority of state powers and responsibilities (Chandrika & Acharya, 2020). The federal government has faced ongoing criticism for its reluctance to transfer significant responsibilities, functions, and institutions that should be devolved to the provincial and local level (The Kathmandu Post, 2024).

The issue of rightsizing and restructuring of bureaucracy in Nepal is a pertinent issue since the adoption of federalism in 2015. The reforms are seen as critical for the country's governance, economic development, and public service delivery. A restructured bureaucracy can empower local governments and province governments by enabling them to address local issues more effectively and promote inclusive development. As recurrent costs related to bureaucratic structure is very high, rightsizing and restructuring efforts can help reduce unnecessary expenditures, thereby freeing up resources for development projects and social programs.

One of the success stories in the context of restructuring and rightsizing initiatives in Nepal's bureaucracy is local level governments. Following the transition to federalism, the rights and power

vested in central government were transferred to local and provincial level governments. Local governments are the closest authority for citizens to get public services and fulfill their development aspirations. Many of the critical services, including health, education, agriculture, sanitation, and local infrastructure development, among others are now administrated efficiently by the local governments. Devkota and Khanal (2024) state that after the enactment of local level governments, their organizational structures were widely restructured and rightsized.

Conversely, the rightsizing and restructuring of Nepal's public health sector stand as a failure. The sector was unable to cater to the needs of rural populations to get basic health services. Basnet (2024) argues that despite the adoption of federalism in Nepal, the bureaucratic restructuring and rightsizing has fallen short of expectation. This case is taken as an example of how the administrative federalism in Nepal remains incomplete and inadequately implemented.

Rightsizing in the National Context

The restructuring of the public sector in many developing states has often been executed to address the increased demand for public goods and services, alongside calls for a more flexible and efficient public administration. The World Bank (2019) notes that Nepal's adoption of federalism has resulted in provincial and local governments managing significant public resources and delivering essential services, thereby placing the country in a transitional phase that necessitates rightsizing government structures.

In Nepal, all three tiers of government - the federal, provincial, and local levels - have the authority to approve the structure and functions of their respective bureaucracies. Administrative federalism in Nepal constitutes adjustment of civil servants across the three tiers of government, the establishment of institutions, and the development of legal and policy frameworks for efficient bureaucracy at all levels. Following the adjustment of civil servants from the federal level, a number of them who previously worked in central government institutions have been reassigned at the local level. However, a significant challenge remains: the bureaucracies of most of the local government units lack the expertise required to effectively manage the broad and complex responsibilities entrusted to them under the constitution. In this context, government rightsizing becomes a crucial measure to improve bureaucratic efficiency (Bhusal, 2023).

Shrestha and Paudel (2019) highlight that while the Civil Service Act of 1993 has guided civil service operations in Nepal, several critical issues persist, particularly regarding limited inclusion and the management of civil servants within the newly formed local government bodies. The Civil Service Act of 1993 contains comprehensive provisions related to the recruitment, promotion, transfer, and performance evaluation of civil servants. It also outlines the procedures for conducting Organization and Management (O&M) surveys to approve government structure and provides guidance on management audits and related administrative matters.

Demand Side of Rightsizing and Restructuring

Rightsizing and restructuring of the bureaucracy have remained pertinent issues in Nepal for an extended period. The restructuring of the state became a central goal of the people's movement, along with the demands for democracy, inclusiveness, and social justice, especially following the political changes of 1990. The restructuring of the government, including that of the bureaucratic system, was also a major agenda during the armed conflict and civil war in Nepal. Article 138 of the Interim Constitution of 2007 explicitly tasked the Constituent Assembly to dismantle the centralized, unitary state structure to overcome discrimination (Acharya & Chandrika, 2021). In this context, a high-level commission was established to recommend structural changes, with the final decision on adopting a

federal system entrusted to the Constituent Assembly. Eventually, the Constituent Assembly promulgated the Constitution of Nepal in 2015, incorporating the fundamental principles of federalism, republicanism, secularism, and democracy (Dahal, 2021).

Political movements in Nepal have consistently emphasized the restructuring of the state along with the restructuring of the bureaucracy. In addition, there were many other movements led by civil society, the private sector, and political leaders to rightsize the bureaucracy as it was believed that Nepal's bureaucracy was oversized and needed to be adjusted as per the requirement of the government. Various scholars have also emphasized on the rightsizing of bureaucracy. Pandey (2019) notes that several administrative reform commissions have recommended to reduce the number of ministries and cutting down the overall number of government employees.

The complex structure and processes of the government services call for expertise in public administration, which further demands internal and external control mechanisms, legal provisions, institutional arrangements, and decentralized decision-making. It further enhances the interplay between the political and administrative cultures, playing a crucial role in intergovernmental coordination, cooperation, and collaboration. Nembang et al. (2020) highlighted that the success in administrative federalism relies on creating a collaborative work environment and a commitment to coordination at all levels, a principle that is particularly relevant to Nepal's federal context. Proponents of federalism have advocated for the restructuring of the administration into three tiers, with the objective that the public could get better services from the government and public services could be more efficient and effective (Subedi, 2020).

Nembang et al. (2020) highlighted that Article 302 of the Constitution of Nepal has provisioned the formation and execution of government service at the provincial and local levels. In support of this constitutional mandate, the Local Governance Operation Act of 2017 has several provisions to ensure effective local governance. The efforts to strengthen local level governments have significantly contributed to improving and strengthening the relationship between citizens and public institutions while ensuring public service delivery from the nearest government (Dhungel, 2017). There has been several advocacies and movement that have highlighted the importance of local level governance in Nepal and they have demanded to restructure the bureaucracy to empower local level governments.

Acharya and Zafarullah (2020) observe that there exists an extended dominance of the central bureaucracy which continues to restrain power-sharing, thereby limiting effective service delivery at both provincial and local levels. As a result, the operational capacity of provincial and local governments has remained relatively weak, especially in terms of intergovernmental relations. Compounding these challenges are insufficient legislation and institutional frameworks as well as impotency in human resource management, accounting and procurement systems, and revenue administration (Acharya, 2018). Bhusal (2023) highlights that provincial and local level governments in Nepal are now demanding the effective restructuring of the three tiers of government, especially in light of persisting centralization of authority and the continuous expansion of the federal government.

Supply Side of Rightsizing and Restructuring

Several administrative reform commissions were formed by the Nepal government at various points in time with the objective of rightsizing the bureaucracy. Shakya (2010) notes that while the Administrative Reform Management Committee (ARMC) formed in 1992, based on the recommendations of the Administrative Reform Commission (ARC) of 1991, aimed to reduce the overall size of civil service, the number of civil servants eventually returned to its previous level, thereby negating the intended impact of the reforms. Ghimire and Ashraf (2016) reported that a reform committee recommended several measures, such as downsizing ministries, implementing codes of conduct, strengthening corruption control, decentralizing administrative work, and developing high-level management, but these reform initiatives were ultimately stymied during implementation.

According to Ghimire and Ashraf (2016), the High-level Administrative Reform Committee established in 2014 was mandated to identify the barriers to public service improvement and focused particularly on rightsizing government structures. The committee identified several critical issues undermining effective governance, including corruption, lack of accountability, political instability, and administrative inefficiency. In response, the committee recommended a number of strategic reforms, such as reducing ministries, strengthening institutions, improving public corporations, and addressing governance, diversity, and staff unions. Additionally, the report called for a security system, foreign policy, and training for federal administration, alongside addressing organizational, legal, and policy issues for accountable public administration.

Dahal (2024) states that the federal restructuring mandated by the Constitution of Nepal (2015) aimed to distribute power across three levels of government to address regional disparities and discrimination. The constitution guarantees fundamental rights and delineates state powers, assigning exclusive powers to federal, provincial, and local governments as well as outlining concurrent powers shared among them.

Following the promulgation of Constitution of Nepal in 2015, the Federalism Implementation and Restructuring Directive Committee was formed in 2016 under the leadership of the prime minister (Devkota & Khanal, 2024). The committee studied the constitutional Schedules 5 through 9 and prepared the Unbundling Report, which was then endorsed by the Council of Ministers (Office of the Prime Minister and Council of Ministers (OPMCM), 2017). This report served as an important reference in clarifying a range of issues regarding the implementation of federalism and the interrelationship among the three levels of governments (Democracy Resource Center Nepal (DRCN), 2019). However, despite its attempts, the report was not able to completely resolve the constitutional complications.

In 2017, the government of Nepal formed the Federal Administrative Restructure Committee. The committee submitted its report to the government, which included several suggestions and proposed draft legal frameworks that included recommendation for adjustment of federal civil servants into provincial and local level governments (Bahl et al., 2022).

A high-level committee was formed by the government of Nepal in 2020 to assess the implementation of administrative reforms in the country (Ghimire, 2019). Bishwakarma (2022) highlights that the committee reported redundancies in work programs and job descriptions across government bodies and recommended to remove overlapping organizations through a process of restructuring and rightsizing. The committee further concluded that the Organization and Management (O&M) Surveys conducted by all three tiers of government were ineffective and inefficient.

Table 5.1 summarizes the recommendations and implementation of the major administrative reform initiatives in Nepal. All administrative reform initiatives have emphasized on restructuring and rightsizing of the bureaucracy, however, the implementation of these recommendations has remained problematic. Rather than downsizing the structure and workforce of the federal government, the trend has shown an annual increase in both size and structure of the federal government. Moreover, the O&M Surveys, intended to serve as a tool for rightsizing the organizations, are considered inefficient and ineffective.

The Employee Adjustment Act of 2017 contained provisions for the adjustment of civil servants who were previously working for the federal government. A proportion of these civil servants were reassigned to the newly formed provincial governments while some government institutions were also placed under provincial government (The World Bank, 2018). The adjustment process for civil servants across all three tiers of government was completed in 2019. Approximately 102,991 civil servants were reassigned as part of this initiative, with around 39,960 personnel were adjusted in the federal level, approximately 13,821 deployed to the seven provincial governments, and about 43,807 personnel adjusted to the 753 local level governments throughout the nation (HLCIMAR, 2020).

TABLE 5.1

ADMINISTRATION REFORM COMMISSION'S RECOMMENDATION AND IMPLEMENTATION

Commission/Committee	Year	Key Recommendations	Implementation Status
Administrative Reforms Committee	1951	• Merit-based civil service • Decentralization, training for civil servants	Public Service Commission established in 1951, limited decentralization
Jha Administrative Reform Commission	1968	Ghimire & Ashraf (2016) reported key recommendations as: - Principle of decentralization - Security of service of civil servants - Strengthening the public service commission (PSC)	Ghimire & Ashraf (2016) reported Group Classification System was introduced in administration
Administrative Reform Commission (Thapa Commission)	1975	• Reorganize ministries • Strengthen local governance • Improve service delivery • Establish administrative staff college	• Some structural changes, decentralization weakened by Panchayat centralization • Administrative Staff College established in 1982
Administrative Reform Commission (ARC)	1991	Ghimire & Ashraf (2016) reported the commission recommended redefining the role of government, public service, restructuring public organizations, and rightsizing bureaucracy	• Partial implementation • Local Self-Governance Act (1999) introduced decentralization • Ghimire & Ashraf (2016) reported reduction of the number of civil servants to 77,000 by end of fiscal year 1993/94 from the then level of 102,744 was not implemented, which was also highlighted by Shakya (2010) • Shakya (2010) reported that against the recommendation of the committee to downsize the number of ministries from 21 to 18, the number of ministries were not reduced
High-level Administrative Reform Committee	2014	• Dynamic, accountable, result-oriented, and transparent public administration • Ghimire & Ashraf (2016) reported that the committee also recommended to reduce the number of ministries	• Limited implementation, some structural changes, but systemic inefficiencies persist • Federalism adopted in 2015
Federal Administrative Restructure Committee	2017	Recommendation for adjustment of federal civil servants (Bahl et al., 2022)	Adjustment of federal civil servants into provincial and local level governments is completed
High-level Committee for Implementation and Monitoring of Administrative Reform	2020	• Align civil service with federal structure • Improve service delivery • Remove redundant organization by restructuring and rightsizing (High Level Committee for Implementation and Monitoring of Administrative Reform (HLCIMAR), 2020)	• Ongoing implementation • Challenges in aligning federal and local governance systems • Restructuring and rightsizing is inefficient

Source: Ghimire & Ashraf, 2016; High Level Committee for Implementation and Monitoring of Administrative Reform (HLCIMAR), 2020.

TABLE 5.2

NUMBER OF CIVIL SERVANTS IN FEDERAL AND SUBNATIONAL GOVERNMENTS

Fiscal Year	Civil Servants in Federal Level	Civil Servants in Provincial and Local Levels
2019/20	52,097	10,030
2020/21	44,152	31,479
2021/22	31,431	36,356
2022/23	40,847	37,259

Source: Annual Report of Department of National Personnel Records (Civil) for Fiscal Year 2022/23.

TABLE 5.3

TOTAL CIVIL SERVANTS IN FEDERAL LEVEL

Federal Service	Total Sanctioned Positions	Fulfillments
Nepal Economic Planning and Statistics	330	294
Nepal Engineering	9,363	6,468
Nepal Agriculture	1,212	1,212
Nepal Justice	5,445	4,563
Nepal Foreign Affairs	293	286
Nepal Administration	26,381	17,723
Nepal Audit	534	463
Nepal Forest	1,943	1,807
Nepal Miscellaneous	2,764	2,214
Nepal Education	1,006	846
Federal Parliament	409	246
Nepal Health	2,258	5,141
Total	**51,917**	**41,263**

Source: 65th Annual Report of Public Service Commission (2023–24).

TABLE 5.4

CIVIL SERVANTS IN PROVINCE AND LOCAL LEVELS

Level	Total Sanctioned Positions	Fulfillments
Province level services	17,297	11,446
Local level services	65,556	32,376
Total	**82,853**	**43,822**

Source: 65th Annual Report of Public Service Commission (2023–24).

Data shown in Tables 5.2–5.4 reflects the trends of civil servants in federal, provincial, and local level governments. The size of federal government is still significant despite the implementation of administrative federalism in Nepal (The World Bank, 2021).

The Constitution of Nepal (2015) mandates that provincial and local governments are responsible for organizing and managing their own civil services; however, such arrangements must be in conformity with a requisite federal framework law. Nevertheless, local and provincial governments have not been able to manage and regulate employees, and form a structural foundation due to the absence of Federal Civil Service Act (DRCN, 2024). The enactment of a Federal Civil Service Act has become imperative

to regulate the bureaucratic administrative mechanism in the present federal set-up as well as to facilitate proper personnel management and professional development. In response to this need, the government of Nepal has registered the Federal Civil Service Bill in the House of Representatives of the Federal Parliament in March 2024.

Locus, Focus, and Actors in Rightsizing and Restructuring Initiatives

The locus of rightsizing and restructuring in Nepal range from federal government ministries and departments, provincial governmental ministries and departments, and local level governments. These sectors require intervention, especially in rightsizing and restructuring initiatives, to improve efficiency, eliminate redundancies, and enhance overall functionality.

Section 6A of the Civil Service Act, 1993 has specific provisions for bureaucratic rightsizing and restructuring through the O&M Survey. In accordance with the provisions of the Act, the O&M Survey Directives, 2009 have outlined two streams of procedures for implementing rightsizing and restructuring measures: (i) the Brief Survey; and (ii) the Comprehensive Survey.

A Brief Survey is applied in instances where only minor changes to the bureaucratic structure are required. For example, the addition or reduction of one or two divisions or sections, reducing the number of staffs without restructuring the whole organization, and partial changes in work procedures and management of the organization.

In contrast, a Comprehensive Survey is conducted when there is a requirement for substantial changes in the organizational structure, including reforms in work procedures, major changes in structure and management, employee adjustment, and broader administrative reforms. In both cases, the basis for the survey will be comprehensive analysis of the programs, workload, nature of work, rationale, and the required human resource.

The analysis of programs includes a study of the roles and responsibilities of the organization. Any increase or decrease in the roles and responsibility, as determined by government policies, national programs, budgets, or periodic plans, must be analyzed to assess whether an expansion or reduction of the organization structure and corresponding staff size is warranted. Such determinations are incorporated into the O&M Survey framework.

Workload analysis is another important element in the O&M Survey. To ensure efficient allocation of tasks and to assess employee productivity, it is necessary to establish a benchmark or standard for job responsibilities and productivity. Existing standards, indicators, or previous studies may also serve as reference points for this analysis. In the absence of such data, additional methodologies, such as questionnaire, data collection and analysis, and observational studies must be conducted to establish the standards for workload analysis.

Apart from analyzing programs and workload, an understanding of the nature of work is also necessary as organizational structure varies in accordance to the nature of the work performed. Factors, such as geographical location, types of services, previous precedents, and the nature of the works must be taken into account prior to determining the rightsizing of the organization. In this study, government programs, work responsibility, the rationale for rightsizing the organizational structure, and the availability of the human resources must be considered.

The directives have also provisioned the organizational structure of the Taskforce or Working Committee for conducting the O&M Survey. The task force is headed by the representative from the respective ministry or constitutional body with its members drawn from the Ministry of Federal Affairs and General Administration and the Ministry of Finance (MoF) (Devkota & Khanal, 2024). The task force can invite other relevant stakeholders as per the requirement. It may either undertake the survey directly or appoint a consultant to conduct the survey through any appropriate means.

The taskforce has to observe either the Brief Survey or Comprehensive Survey procedures, as outlined in the directives. In accordance with these procedures, the organizational structure and employee size shall be proposed to the respective ministry or constitutional body, based on a detailed analysis of the organization's programs, workloads, and the nature of its work. The concerned ministry or constitutional body is required to first obtain approval from the MoF before implementation (Devkota & Khanal, 2024). The directives also provide a sample template of the Survey Report as guidance.

The Procedure for Organization and Structure Review, 2019, has outlined two procedures for rightsizing the bureaucratic structures in alignment with the provisions of the prevailing laws. This procedure provides a framework for rightsizing all organization established after the implementation of the Constitution and Employee Adjustment Act, 2017. It has emphasized the analysis of the scope of work, workload, and nature of work to finalize rightsizing of those organizations. The principles and basis for bureaucratic restructuring are mentioned as job specialization, workload, and the nature of work. The procedure assumes that every employee is required to work for 40 hours in a week, and that the justification for the addition of any new employee must be supported by evidence of a workload equivalent to 40 hours per week.

Further, it emphasizes on reducing organizational structures and staffing levels through rightsizing while simultaneously looking into increasing remunerations and benefits of the employees as per international average, thereby making civil service more attractive to talented individuals. The procedure also highlighted the use of ICT, adopt structures based on workload, ensure staffing is based on functions and structure, and provide certainty of service delivery while finalizing the organizational structure and size (Devkota & Khanal, 2024).

Federal Government

The Ministry of Federal Affairs and General Administration (MoFAGA) is the Central Personnel Agency (CPA) of the government of Nepal. As per the provisions of the Civil Service Act, MoFAGA is responsible for administrative restructuring, rightsizing, personnel administration, maintaining the records of civil servants as well as overseeing their promotion. MoFAGA is also tasked with the restructuring and rightsizing of the ministries and departments of the federal government in compliance with the provisions and procedures prescribed by the Civil Service Act (Gyawali & Pandey, 1994).

The structure of bureaucratic organizations is approved through the O&M Survey, which is also required in cases where there is a need to change, expand, or resize the structure of government organizations. However, MoFAGA must obtain approval from the MoF before finalizing the O&M Survey. Ultimately, the O&M Survey report prepared by MoFAGA for any concerned ministry or department must be approved by the cabinet of the government of Nepal (Gyawali & Pandey, 1994).

Provincial Governments

Devkota and Khanal (2024) report that the Office of the Chief Minister and Cabinet of the Ministers (OCMCM) is the responsible authority for administrative restructuring and rightsizing within each province. OCMCM acts as the CPA for the respective provincial governments. However, as the federal government has yet to formulate a Federal Civil Service Act, the provincial governments face several challenges in regulating civil service functions within their jurisdiction. In response, many provincial governments have enacted their own Provincial Civil Service Acts to manage public administration at the provincial level. These Provincial Civil Service Acts have substantial provisions for the establishment of bureaucratic structure as well as restructuring and rightsizing of public administration within the provinces. OCMCM is responsible for carrying out O&M Surveys of provincial government organizations. The underlying principles and procedures of the O&M Survey at the provincial level are similar to the federal government. After the preparation of the O&M Survey report by the OCMCM, the proposed structure must be approved by the Cabinet of Ministers of the provincial government.

Local Level Governments

Acharya (2021) notes that the mayor of a municipality or the chairperson of a rural municipality serves as the head of the local level government's executive branch, and is assisted by the vice mayor or vice

chairperson, ward chairpersons, and members. Additionally, the Municipal Assembly holds the legislative rights within the local level governments. These governments possess the constitutional rights to formulate laws and other regulations concerning matters within their jurisdictions. District Assemblies, composed of elected representatives, are established in each district to coordinate among local level governments and to monitor their performance. Apart from the employees that were adjusted from federal or other levels of government, local level governments have also recruited new personnel through the respective provincial public commissions.

The principles and procedures for O&M Survey is similar to that of federal and provincial governments. Dhungana (2019) highlights that the O&M Survey of local level bureaucracies must be prepared by the administrative unit of the concerned municipality or rural municipality, and finally approved by the Municipality Executive Committee headed by the mayor or chairperson. Most local level governments are expanding their bureaucratic structure to cope with extended roles and responsibilities (Dhungana, 2019).

Success and Failure of Rightsizing

Bureaucratic rightsizing is the process of restructuring government agencies or departments to improve efficiency, productivity, and responsiveness. Rightsizing is achieved by aligning the right number of staff and the structure of bureaucratic organizations, reducing redundant staff, merging overlapping functions, and streamlining processes. In Nepal, successive governments have attempted to reform the bureaucracy to ensure its functionality and to serve the public interest effectively. Gautam B. (2019) highlighted that the government initiates of Nepal has prioritized public administration reform for a long time and several Administration Reform Commissions were formed over time. However, the recommendations made by these commissions and committees were never fully implemented by any government.

The government has initiated several reforms to address the country's evolving governance needs. Before adopting federal structure in 2015, there were many interventions from the government to rightsizing the bureaucratic structure. Decentralization, power devolution, lean organization, and improvement in service delivery were the major initiatives under bureaucratic reforms.

Ayadi (2025) highlighted that Nepal achieved significant success in implementing administrative restructuring and rightsizing as per the federal structure of the constitution of Nepal. Bureaucratic restructuring and rightsizing in the local level government is one of the success stories of Nepal (Ayadi, 2025). On the other hand, the World Bank (2019) highlighted that, even after the implementation of federalism, the size and structure of the federal government had not decreased. Instead, it has continued to expand over time, leading to many overlaps and redundancies in work programs and responsibilities among the federal, provincial, and local governments.

Successful Case Study: Restructuring and Rightsizing of Local Level Governments
The government of Nepal established the Local Level Restructuring Commission (LLRC) in March 2016. Although the LLRC initially recommended the establishment of 719 local governments nationwide, some regional political parties had called for more, particularly in the Terai region. Devkota & Khanal (2024) noted that the government expanded the number of local governments to 753, consisting of 460 rural municipalities and 293 urban municipalities, in order to meet the demands from several regions. There are also 77 District Coordination Committees (DCCs) to serve as coordination units between local governments and provincial governments as well as to monitor the work of local level governments in the district.

Devkota & Khanal (2024) further reported that the government enacted the Employees Adjustment Act in 2017 to create the necessary mechanisms for service delivery at the subnational levels. Under this Act, about 102,991 civil servants were reassigned to new roles at the federal, provincial, and local levels. Of these, 43% of public employees were integrated into local government. According to the

Department of National Personnel Records (Civil), there are 138,327 permanent civil service posts in Nepal, of which 66,908 (49%) are in local governments. However, only 44,321 civil servants from the central civil service opted to work under the local governments. Additionally, local governments inherited 12,097 employees from preexisting local bodies and other sectors (Department of National Personnel Records, 2021).

Currently, all of the 753 local level governments operating under the federal framework are operational. In 2022, Nepal successfully held its second general election under the federal structure, resulting in the democratic selection across all three tiers of the governments (Devkota & Khanal, 2024). Local level governments are headed by either a mayor or a chairperson with ward-level offices forming integral parts of the local administration. Each ward office is led by a Ward Chairperson and includes four elected ward members, who are responsible for ward-level development.

According to the MoF, the Economic Survey for the fiscal year 2018/19 reported that during the federalism implementation process, local governments gained control over 27 hospitals, 308 Ayurvedic pharmacies, 209 primary health centers, 3,809 health posts, 753 agriculture service centers, and 999 veterinary centers (MoF, 2020).

Devkota and Khanal (2024) further highlighted that local assemblies must pass proposals by a two-thirds majority vote before submitting them to the federal government through the provincial government. Changes in boundaries and ward numbers must be based on considerations of population, geography, and developmental status. A legal provision exists for the amalgamation of two or more local level governments through a merger process.

They also noted that employees at the local government level should be appointed through the Provincial Public Service Commissions, all of which had been formed by 2021 and are currently operational. These commissions have already begun recruiting civil servants in both provincial and local levels. Local governments have the authority to determine the size and structure of their workforce. Local assemblies can decide on the number of posts and the organizational structure based on O&M surveys (Devkota & Khanal, 2024). Most local level governments have rightsized their bureaucratic structure as per their requirements and the bureaucratic restructuring of local level bureaucracies is considered as a successful example of administrative reform in Nepal.

Failed Case Study: Federal Restructure in Health Sector

Administrative restructuring and rightsizing in the public health sector are the critical components of administrative federalism in Nepal. Restructuring and rightsizing of public health services and policymaking aim to improve efficiency, enhance service delivery, and ensure equitable access to healthcare. The Constitution of Nepal recognizes the right to health as a fundamental right under Part 3, Article 35 (National Planning Commission, 2019), thereby mandating that every citizen must have access to basic healthcare services (Government of Nepal, 2015). These provisions highlight the constitutional obligation to provide universal access to basic healthcare services, ensuring that health services are affordable, accessible, and available to all citizens.

The Constitution has allocated authority and responsibilities for health services across all three levels of government (Devkota & Khanal, 2024). The federal government retains responsibility for formulating national health policies, regulating medical education, establishing public health standards, and managing specialized healthcare services. Provincial governments are responsible for managing hospitals, oversee public health within their jurisdiction, and implement provincial health policies.

Local governments are tasked with managing local-level healthcare, including the establishment and operation of health posts, community health centers, and public awareness programs related to health and sanitation. The World Bank (2021) highlighted that certain health-related responsibilities, such as the prevention and control of infectious diseases, are shared between federal, provincial, and local governments.

Devkota and Khanal (2024) emphasized the federal government's role in establishing overarching national health policies relating to infrastructure development, medical education, and disease prevention and control. The Constitution especially stressed on the need for equitable access to healthcare, particularly for marginalized groups, women, children, and those living in remote areas. The government is constitutionally mandated to develop health programs that address disparities in access to healthcare services.

However, Thapa et al. (2019) reported that spillover effects and a lack of clarity in the division of authority among the various levels of government are particularly concerning in the context of federalism. The wide variation in the capacity, economic potential, and administrative authority of Nepal's 753 local governments further complicates this issue. Thapa et al. stressed that it is imperative for Nepal to expedite the development of a federal legislative framework.

Managing human resources is another significant difficulty. There were approximately 10 million people living in Nepal when the country's health service delivery system was established. In the transition process to federalism, most of the hospitals and health services at the district levels were transferred to provincial and local level governments. The Fifteenth Plan of Nepal published by the National Planning Commission (2019) identified that due to lack of clarity in understanding the roles and responsibility of each government, there exist redundancy in bureaucratic structures, policymaking, and health infrastructure development.

The Nepal Health Facility Survey (NHFS) 2021 assessed the availability and quality of health services in the country. According to the Nepal Health Research Council (NHRC, 2022), access to essential health services remains a major challenge, particularly in rural areas. In some regions, fewer than half of the population have access to basic healthcare services, such as antenatal care, skilled birth attendance, and immunization services. This highlights the need for greater investment in healthcare infrastructure and resources, particularly in underserved regions (NHRC, 2022).

NHRC (2022) further reported that only 0.6% of the 1,565 health facilities accessed satisfied all nine criteria for minimum quality care standards, with the highest percentage (1.6%) was found in Province 1. In contrast, provinces, such as Madhesh, Lumbini, and Karnali had none. Many remote locations suffer from insufficient medical infrastructure, supplies, personnel, and medication. Only 17.9% of 1,576 medical facilities were equipped to perform basic laboratory diagnostic tests and just 86.6% of the 45 public hospitals have their own pharmacy. Furthermore, only 73.4% of approved Ministry of Health and Population (MoHP)-sanctioned positions were filled across all public facilities, with staffing levels ranging from 77.9% in the Terai public health facilities to only 50.3% in mountain regions.

The National Health Policy of 2019 has made Universal Health Coverage (UHC) as a top priority, emphasizing the need for fair access, high-quality healthcare services, and universally available, free Basic Health Care Services (BHCS) (MoHP, 2019). Vaidya et al. (2019) observed that provincial and local governments have to design their policies and strategies in alignment with the National Health Policy of 2019. However, they also noted that the provision of healthcare services through a newly federalized structure at the subnational level presents significant challenges, including managing human resources and building capacity at the local level. There is an urgent need to retain skilled professionals and maintain regular availability of essential goods and services to maintain basic healthcare delivery (NHRC, 2019).

Overall, inefficiencies in bureaucratic restructuring and rightsizing of public health services have resulted in redundancies and disparities in healthcare delivery. While some regions have good healthcare services, well-developed infrastructure, and adequate human resources, others lack even the most basic health services. Certain public health facilities in the major cities are overstaffed while many remote facilities lack adequate healthcare professionals for basic health services.

Recommendations and Conclusions

As Nepal continues the implementation of the administrative federalism, bureaucratic restructuring and rightsizing remain a pressing issue. Bureaucratic restructuring as per the constitutional provisions should be top priority across all levels of governments. As the government of Nepal is working on several federal policies and legal framework to strengthen federal restructuring process, high priority must be accorded to administrative federalism.

The conclusions and recommendations are as follows:

i)   **Prioritize early adoption of Federal Civil Service Bill**

The government of Nepal should prioritize the early adoption of the Federal Civil Service Bill through the Parliament, thereby establishing a robust legal framework to govern and strengthen the bureaucratic systems across all levels.

ii) **Foster political consensus on bureaucratic restructuring**

A political consensus should be reached on bureaucratic restructuring that transcends partisan divisions, ensuring continuity, coherence, and long-term commitment to reform efforts.

iii) **Review and eliminate duplication in government agencies**

The government of Nepal, together with the provincial and local level governments, should conduct a comprehensive review of the existing ministries, departments, and agencies with the objective of identifying and eliminating duplication of roles and overlapping functions, as highlighted by Basnet (2024).

iv) **Merge or restructure overlapping agencies**

Agencies with overlapping functions should be merged or restructured to improve efficiency. Redundant organizational structures and positions, particularly in federal ministries, where overstaffing is common, should be identified. This process should be complemented by the strategic redeployment of employees to understaffed sectors, including healthcare, education, and local development.

v)   **Develop digitalized service delivery platforms**

All three levels of governments should consider development of digitalized service delivery platforms to enhance the quality of services as well as rightsizing of the bureaucracy.

vi) **Clearly define roles across government levels**

All three levels of governments must take coordinated steps to ensure that the roles and responsibilities of federal, provincial, and local governments are clearly defined to prevent duplication and overlapping authority, as highlighted by the World Bank (2019) report.

vii) **Clarify unbundling of constitutional powers**

The unbundling of constitutional powers and functions among the three levels of government must be undertaken with greater clarity and precision. This will reduce redundancy, enhance intergovernmental coordination, and support effective and coherent government.

viii) **Strengthen local government capacities**

There is an urgent need to strengthen the financial and human resource capacities of local governments. These governments are in their initial phase of institutionalization. Adequate financial resources and skilled human capital to local governments are essential that will enable them to take on their responsibilities effectively. This includes establishing local civil service cadres with dedicated training and recruitment mechanisms.

ix) **Restructure and rightsize the health sector**

Priority should be given to the restructuring and rightsizing of the health sector. Needs assessments must be conducted at both the provincial and local levels to provide an accurate picture of resource requirements and institutional capacities across all three tiers of government. Based on the clearly defined responsibilities of each level, the healthcare system should then be restructured and rightsized accordingly. Adequate financial arrangements shall also be made after completing these tasks.

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STREAMLINING PAKISTAN'S BUREAUCRACY: ASSESSING DECADES OF RESTRUCTURING AND MODERNIZATION EFFORTS

Abstract

This report critically examines Pakistan's efforts to reform its public sector through rightsizing and restructuring initiatives to improve bureaucratic efficiency and address fiscal challenges. Over several decades, multiple reform initiatives, including those led by the Economy Commission (1991–93), Chattha Commission (1995), Dr. Pasha Committee (1997), Central Committee on Rightsizing and Restructuring (CRR, 2000), and National Commission for Government Reforms (2008), sought to streamline government operations, reduce administrative costs, and improve service delivery. However, despite these well-intentioned efforts, progress has been hindered by fragmented implementation, political resistance, and structural constraints.

The analysis highlights the persistence of an oversized government, with public expenditure as a percentage of GDP remaining high over the years. Reforms such as the 18th Constitutional Amendment (2010) sought to decentralize governance by transferring critical functions, including health and education, to provincial governments. Nevertheless, the federal government continues to incur substantial expenditures on these devolved sectors, thereby exacerbating fiscal strain and blurring accountability. Similarly, state-owned enterprises (SOEs) remain a major fiscal challenge due to inefficiencies, leakages, corruption subsidies, and overlapping functions that result in significant drains on public resources.

Despite these challenges, the report also highlights successful initiatives that align with global best practices in public sector management. For instance, performance contracting has improved interministerial coordination and resource allocation by linking ministry objectives with national priorities. Moreover, e-governance initiatives, such as the Pakistan Digital Policy 2018, DigiSkills.pk, and Ignite's Innovation Fund, have facilitated digital transformation, created jobs, and promoted innovation. These programs have streamlined government operations, minimized redundancies, and enhanced citizen services. Additionally, the implementation of one-window operations at passport offices and airports have simplified access to essential services, reflecting a citizen-centric governance approach.

The report presents key recommendations that emphasize the need for sustained political commitment, inclusive stakeholder engagement, and evidence-based policymaking to overcome systemic barriers. Aligning federal structures with provincial roles, reducing duplication of functions, and leveraging private sector involvement are critical to achieving efficient governance. The restructuring of SOEs, guided by the State-Owned Enterprises (Governance and Operations) Act 2023, and adherence to fiscal discipline are essential for long-term fiscal sustainability.

As a conclusion, this report calls for integrating modern governance tools, capacity-building, and digital innovations to build a responsive, efficient, and accountable government. By addressing historical inefficiencies and prioritizing citizen-centric service delivery, Pakistan can align its governance model with evolving global standards and meet the demands of a modern state. These

efforts, if implemented effectively, have the potential to transform Pakistan's public sector into a driver of sustainable economic and social development. This report contributes to the broader discourse on public sector reform by providing actionable insights and strategic guidance to policymakers, stakeholders, and development practitioners engaged in Pakistan's governance transformation.

Introduction

Public service plays a significant role in socioeconomic development at all levels of government by providing essential services, such as education, health, infrastructure, and security. However, the public sector has been criticized for inefficient performance, rigid service delivery, and bureaucratic inflexibility (Basloom et al., 2022). In response, waves of public sector reforms have been introduced to bring efficiency and effectiveness to government operations, maximize resource utility, improve the quality of public services, and enhance national competitiveness while striving for greater cost-efficiency. These reforms are crucial to maintaining the government's relevancy in the evolving socioeconomic landscape shaped by globalization, technological advancement, demographic change, and crises, such as climate change and pandemics.

The traditional model of public administration has faced criticism because of its inflexible process-based approach, resulting in a bloated bureaucracy with diminishing productivity (Huque & Jongruck, 2020). According to Rhodes (2015), the traditional system "was seen as the problem, not the solution." Bureaucracy, in this regard, has been likened to a dinosaur, ruling the pre-New Public Management (NPM) earth, symbolizing an institution that is slow-moving, insensitive, insufficiently adaptable, and seriously underpowered as far as brains were concerned (Pollit, 2003). In response, the NPM movement emerged to reduce government size, improve service delivery, and prioritize results over process. As a result, government reforms to streamline its departments and organization operations to enhance efficiency and reduce costs became an urgent priority.

Under the NPM, countries across the globe have adopted various reforms to improve the public sector performance. Among these, "rightsizing" has emerged as a critical strategy to address inefficiencies and modernize government operations. More than a simple reduction in size, rightsizing involves structural reforms and incorporates innovations, such as digital transformation, outsourcing, privatization, and coproduction. A range of concepts, such as retrenchment, restructuring, reorganization, reengineering, and reductions, can be linked with rightsizing (Ruslan et al., 2022). Its core objective is to establish leaner, more responsive, and citizen-focused governments, and over time, it has evolved into a comprehensive approach aimed at developing resilient and agile public institutions capable of addressing complex global challenges. Today, governments must move beyond outdated models and adopt more flexible, forward-thinking strategies to continue providing essential services effectively in a rapidly changing world.

In Pakistan, the significance of rightsizing and restructuring lies from the need to address deep-rooted inefficiencies, fiscal imbalances, and governance shortcomings that have persisted despite multiple reform efforts. Over the years, an oversized bureaucracy, redundant functions, and inefficient resource allocation have contributed to high administrative costs and limited service delivery. Against this background, this report aims to critically analyze past and present rightsizing and restructuring efforts in Pakistan, evaluate their successes and challenges, and propose evidence-based recommendations for achieving a more efficient, accountable, and fiscally responsible government. It comprehensively reviews reform initiatives, assesses their implementation gaps, and explores viable pathways for sustainable public sector transformation.

Political and Administrative Context of Pakistan

Pakistan's history as an independent nation began on 14 August 1947, following the partition of the Indian subcontinent. This momentous event marked the end of British colonial rule and the birth of Pakistan as an independent state.

Pakistan is a federal parliamentary republic and administratively consists of four federating units or provinces (Baluchistan, Khyber Pakhtunkhwa, Punjab, and Sindh), two autonomous territories (Azad Jammu and Kashmir, and Gilgit-Baltistan), and one federal territory (Islamabad Capital Territory). Each province has its elected assembly and government, and they are administratively subdivided into divisions and districts. The government has three branches: executive, legislature, and judiciary. The Federal Legislature comprises the National Assembly and the Senate. The prime minister (PM) heads the executive branch, with power vested in the Federal Cabinet, which operates in coordination with the Parliament. The Federal Cabinet includes the prime minister's secretariat, the cabinet division, and the establishment division. The latter two divisions report directly to the PM's Office while various organizations working under the ministries report to their respective portfolio ministers, which then report to the PM's Office. These ministerial organizations are divided into various categories based on their legal and functional status, such as attached departments, autonomous bodies, and state-owned companies (Zahra & Bouckaert, 2021).

Pakistan's administrative framework is composed of provinces, territories, and local governments with resource distribution managed through the National Finance Commission (NFC). The 1973 Constitution outlines principles of governance, fundamental rights, and power distribution between federal and provincial governments. Over time, amendments in the Constitution reflect Pakistan's evolving needs and political landscape. Despite challenges, the 1973 Constitution remains the central legal framework for governance.

The Constitution provides two legislative lists of subjects: the Federal Legislative List and the Provincial Legislative List. The Federal Legislative List consists of subjects which only the federal government has the authority to legislate. These include critical domains, such as defense, foreign affairs, finance and currency, natural resources, and communications. In contrast, the Provincial List comprises subjects, such as education, health, and other areas more appropriately managed at the provincial level. Pakistan's federal government is institutionally structured into ministries or divisions, departments, subordinate offices, and autonomous or semiautonomous bodies, each responsible for administering the subjects assigned to them under the Constitution (Pakistan Management Services Wing, 1999).

The ministries and divisions are primarily responsible for formulating policies, strategic planning, administrative direction, regulatory control, and international liaison. Specific subjects have been allocated to each ministry or division under the Rules of Business 1973, framed by the federal government in accordance with its constitutional mandate. To execute their respective functions, ministries are supported by attached departments and subordinate offices. In addition, autonomous and semiautonomous bodies are generally corporate entities involved in commercial, industrial, or development operations (Pakistan Management Services Wing, 1999).

Currently, the federal government of Pakistan comprises 34 ministries and 41 divisions. While many ministries consist of a single division, others have multiple divisions. Each ministry is headed by a federal minister, who is a member of the Cabinet while a minister of state oversees specific divisions within these ministries (Pakistan Cabinet Division, 2024).

Rightsizing and Restructuring in the National Context

The journey of rightsizing and restructuring in Pakistan's public administration is deeply intertwined with the country's political and administrative evolution. Since gaining independence in 1947, various

governments have constituted various commissions and initiated reforms to improve administrative efficiency. Early efforts in the 1960s and 1970s focused on civil service restructuring and nationalization of private units, whereas reforms in the 1980s and 1990s shifted toward the principles of NPM, emphasizing privatization, deregulation, and the fostering of public-private partnerships. However, many of these reforms faced resistance and severe implementation challenges.

From 2000 onwards, a notable shift in reform trajectory emerged, with significant reforms focused on privatization, deregulation, and liberalization. General Pervez Musharraf's government initiated extensive privatization programs, particularly in the telecommunications and energy sectors. The Devolution Plan of 2001, spearheaded by the National Reconstruction Bureau, aimed to decentralize power by abolishing traditional administrative posts and transferring responsibilities to elected local governments (Naqvi, 2003). However, these reforms faced implementation challenges, with political and bureaucratic resistance undermining their sustainability.

In April 2006, the National Commission for Government Reforms (NCGR) was established to conduct comprehensive structural reforms, reviewing government structures, civil services, and processes across federal, provincial, and district levels. The aim was to enhance efficiency and effectiveness in the public sector (NCGR, 2008). Subsequently, the civilian government initiated the Public Administration Reform Commission (PARC) in 2011, focusing on evaluating the civil service and recommending reforms aligned with international best practices. The PARC report proposed various measures to increase transparency, improve recruitment processes, strengthen accountability mechanisms, and establish a performance evaluation system. Moreover, two task forces, namely "Civil Service Reform" and "Government Restructuring and Austerity," were established. At the federal level, these task forces have formulated recommendations spanning key areas, such as induction, training, tenure security, selection processes for chief executives of autonomous bodies, promotion criteria revision, rules for compulsory retirement, revitalization of the Secretaries Committee, performance contracting, e-Governance roadmap, reforms in Public Financial Management, delegation of financial authority, and the reorganization of 441 federal organizational entities (PARC, 2004; Ministry of Planning, Development & Special Initiatives, 2022).

A landmark development in the restructuring process was the 18th Constitutional Amendment in 2010, which sought to decentralize governance further by abolishing the Concurrent Legislative List and empowering provinces. This amendment reduced the President's powers and gave more autonomy to the provinces. In parallel, the role of the Council of Common Interests has increased authority to address federation/province and interprovincial issues. Rather than pursuing complete privatization, the focus shifted toward fostering public-private partnerships for privatization (Ministry of Privatization, 2017). This amendment marked a significant step in restructuring federal and provincial roles, although incomplete fiscal devolution led to inefficiencies and duplication of efforts.

With the government recognizing the inefficiencies and fiscal burdens of its extensive state-owned enterprises (SOEs) portfolio, the government undertook a comprehensive triage in 2019 and categorizing SOEs for retention, privatization, or liquidation. This initiative, aligned with the IMF's Extended Fund Facility (EFF), was designed to reduce fiscal risks and improve SOEs performance (Finance Division, 2021). However, resistance from employees, unions, and political parties often stalled these efforts.

More recently, in August 2024, the federal government reaffirmed its commitment to administrative streamlining by establishing a Committee on Rightsizing, under Finance Minister Muhammad Aurangzeb (Press Information Department, 2024). The renewed initiative emphasizes streamlining government operations, reducing expenses, and improving efficiency. The Terms of Reference (ToRs) include realigning federal structures with provincial obligations, integrating private sector roles, and effectively managing human resources and assets (Pakistan Cabinet Division, 2024).

While Pakistan's history of rightsizing and restructuring demonstrates an enduring commitment to administrative efficiency, the journey has been fraught with challenges. Incomplete implementation, political instability, resistance from vested interests, and inconsistent policies have often undermined

these efforts. Moving forward, sustained political will, institutional capacity, and a commitment to transparency are critical to achieving meaningful reforms. Table 6.1 presents a summary of reform initiatives undertaken across various periods.

TABLE 6.1

SUMMARY OF REFORMS FROM 1947–2024

Period	Key Focus	Reform Initiatives
Postindependence (1947–1950s)	Government restructuring and administration efficiency	• A Reorganization Committee led by Sir Victor Turner assessed ministry staffing while the House Committee reviewed administrative and financial structures • The Pay Commission under Justice Mohammad Munir focused on employee remuneration • International experts Rowland Egger and Bernard Gladieux recommended decentralizing decision-making, forming government-owned corporations, and creating O&M units for operational analysis • Senior civil servant G. Ahmad contributed a report on reorganizing the federal government
1960s	Restructuring and public service reforms	The Cornelius Pay Services and Reform Commission 1962 - A working group led by Mr. D.K. Power (1968) reviewed public service structures, implementing recommendations from the British Fulton Report for administrative efficiency
1970s	Nationalization and administrative reforms and restructuring	• Administrative Reforms (1973) abolished CSP and unified pay scales • Introduced new occupational groups, and removed constitutional guarantees for civil servants
1980s	Civil service reforms	Introduced a 20% quota for armed forces officers in civil service, maintaining many 1973 reforms but with modifications to recruitment and staffing policies
1990s	Privatization, rightsizing, restructuring	Economy Commission (1991–93), Chattha Commission (1995), Caretaker Government (1996), Dr. Pasha Committee (1997), CRR (2000) - These commissions recommended reforms focusing on restructuring administrative functions and improving efficiency in the public sector
2000–07	Decentralization	Devolution Plan & Local Governments, Police Order 2002, abolished executive magistracy, and the NCGR recommended restructuring of the government at both federal and provincial levels
2008–13	Devolution and restructuring	• 18th Constitutional Amendment: Concurrent List abolished • Devolved several federal responsibilities to provinces
2013–17	Performance-based pay and restructuring	Committee on Performance-based Remuneration (2015) - Introduced pay reforms based on performance criteria aimed at increasing public sector effectiveness and reducing inefficiencies in operations
2018–22	Civil service reforms and organizational restructuring	• Task Forces on Civil Service Reforms and Austerity & Restructuring of Government • Introducing KPIs and performance contracts • Adopted the Public Financial Management Law • Digitized government processes, SOEs Triage (2021)
2024–present	Rightsizing and restructuring	Committee on Rightsizing was constituted in August 2024

Source: Author's compilation from Alam (2015) and various reports.

Demand Side of Rightsizing and Restructuring

The need for restructuring and rightsizing in Pakistan arises from numerous inefficiencies and systemic challenges in its public sector. The following identified problems highlight Pakistan's urgent need for rightsizing and restructuring.

Economic Pressure and Fiscal Constraints

Pakistan's fiscal deficit has been on a persistent upward trajectory, posing serious risks to fiscal and debt sustainability. In Fiscal Year (FY) 2022, the government deficit reached a 22-year high of 7.9% of GDP (Figure 6.1). This persistent deficit has led to rapid public debt accumulation, peaking at 76.6% of GDP in FY2020 (Figure 6.2). These levels breach the fiscal rules set under the Fiscal Responsibility and Debt Limitation Act (FRDLA), reinforcing the urgency of rationalizing federal expenditure to restore fiscal and debt sustainability (Finance Division 2023; Chen & Hadi, 2023).

FIGURE 6.1

FISCAL DEFICIT AS PERCENTAGE OF GDP
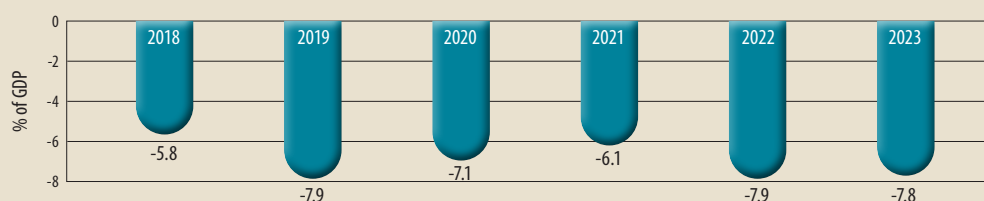
Source: Economic Survey of Pakistan 2024.

FIGURE 6.2

PUBLIC DEBT AS PERCENTAGE OF GDP
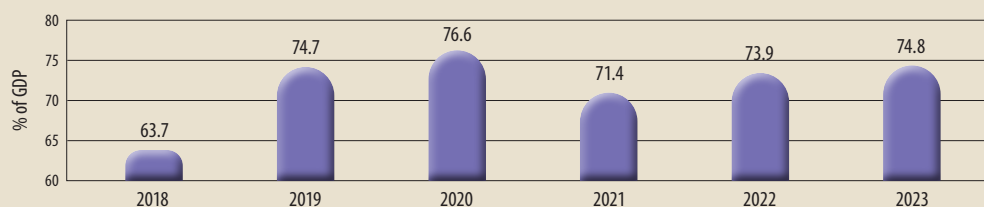
Source: Economic Survey of Pakistan 2024.

Pakistan faces significant economic pressure due to its unsustainable public expenditures. The fiscal system is characterized by structural inefficiencies, with the Federal Budget for FY2024/25 highlighting critical imbalances. Interest payments alone consume 37.14% of the budget while defense spending and subsidies account for 8.06% and 5.18%, respectively, leaving limited fiscal space for essential public services and development projects. With nearly 80% of expenditures precommitted to interest payments, subsidies, and public sector salaries, development spending remains alarmingly low at 2.3% of GDP. This rigidity in spending hampers Pakistan's ability to invest in infrastructure and sustainable growth while inefficient subsidy targeting continues to benefit wealthier households more than the intended low-income groups (Finance Division, 2023; Chen & Hadi, 2023). Figures 6.3 and 6.4 provide federal budget expenditures for 2024–25.

FIGURE 6.3

FEDERAL BUDGET EXPENDITURE (PKR 'BILLION) IN 2024–25
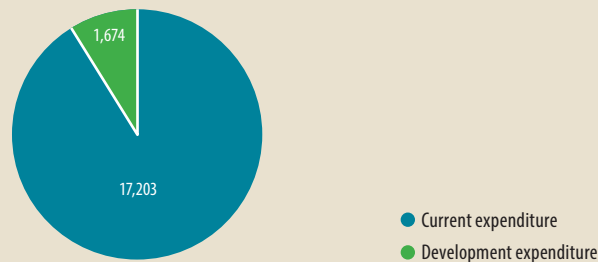
Source: Finance Division.

FIGURE 6.4

CURRENT EXPENDITURE ALLOCATION (2024–25)
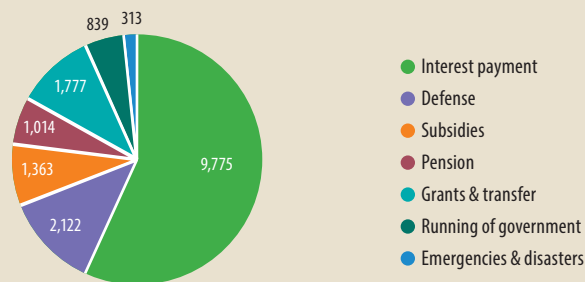
Source: Finance Division.

Spending on energy and commodity subsidies remains poorly targeted, distortive, and wasteful. Between FY12 and FY22, subsidy expenditures averaged 1.1% of GDP and rose sharply to 1.8% in FY22 (Chen & Hadi, 2023).

SOEs and the Need for Reform

At the time of Independence, Pakistan inherited a modest number of 12 SOEs. This figure increased moderately in the 1950s and 1960s with the establishment of development authorities and corporations. However, the 1970s saw a significant surge in SOEs due to the nationalization of large-scale industries, banks, insurance companies, and educational institutions (Khan & Kim, 1999; Sahoo et al., 2014). A reversal of this trend began in the 1990s, and between 1991 and 2015, 172 privatization transactions were completed (Hussain, 2022a). Despite these efforts, the privatization process decelerated, and the government now retains ownership of 206 SOEs. These include 88 commercial SOEs, 73 subsidiaries linked to various SOEs, and 45 noncommercial entities, such as trusts, foundations, regulatory bodies, universities, research and training institutions, and welfare funds (Hussain, 2022a; World Bank, 2024a).

Pakistan's SOEs play a critical role in key sectors, such as energy, transportation, and finance. They employ around 450,000 people and contribute roughly 10% of GDP (Hussain, 2022a). However, chronic inefficiencies, financial mismanagement, and governance failures have severely undermined their performance. In FY2023, while SOEs generated approximately PKR10.3 trillion (~USD37.05 billion)

in revenue, they remain facing substantial financial difficulties, with total liabilities reaching PKR29.72 trillion (~USD106.9 billion) and net losses amounting to PKR905 billion (~USD3.26 billion) (Figure 6.5). These losses were often sustained through heavy government subsidies, loans, and equity injections, totaling over PKR1 trillion (~USD3.6 billion), accounting for 10.88% of the federal budget (Figure 6.6) (Central Monitoring Unit [CMU], 2023).

FIGURE 6.5

FEDERAL COMMERCIAL SOEs NET PROFIT (% OF GDP)
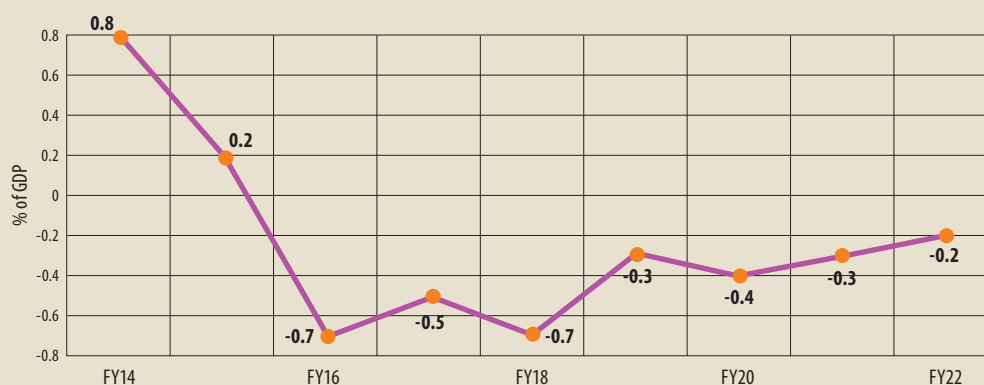
Source: Finance Division and World Bank.

FIGURE 6.6

DIRECT FISCAL SUPPORT TO SOEs
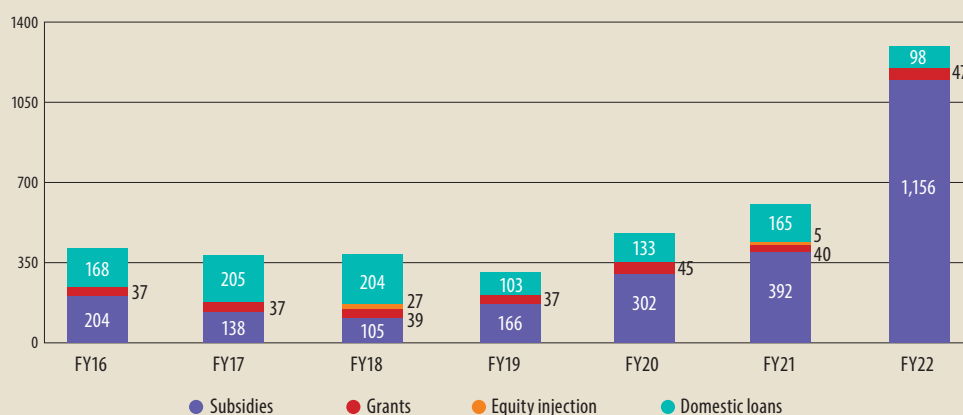
Source: Finance Division and World Bank.

The government's financial outflows to support SOEs have consistently exceeded inflows received from these entities over the years. Subsidies, grants, equity injections, and domestic/foreign loans make up the bulk of the outflows, which have grown significantly over time, rising from PKR451 billion (~USD1.622 billion) (1.4% of GDP) in FY16 to PKR1.303 trillion (~USD4.69 billion) (2.0% of GDP) in FY22. In contrast, fiscal inflows from SOEs, primarily through dividends, corporate taxes,

and interest payments, remain significantly lower. Despite some increases, inflows grew only from PKR140 billion (~USD503.6 billion) (0.4% of GDP) in FY16 to PKR421 billion (~USD1.514 billion) (0.6% of GDP) in FY22 (Chen & Hadi, 2023).

Key loss-making SOEs, such as Pakistan International Airlines (PIA), Pakistan Railways, and various distribution companies (DISCOs), continue to strain public resources. For instance, PIA and Pakistan Railways posted net losses of PKR97.53 billion (~USD350.08 million) and PKR52.9 billion (~US190.3 million) in FY2022 (CMU, 2023). Despite various reform initiatives, such as the triage and categorization of SOEs based on financial viability, privatization plans, and public-private partnerships, the fiscal burden of SOEs remains a significant challenge for Pakistan's economy (Hussain, 2022b).

Addressing the inefficiencies of SOEs through governance reforms, transparency, and strategic restructuring is crucial. Improvements in performance and reducing their dependence on state support are critical to the financial viability of SOEs. The success of these reform efforts hinges on political will, efficient management, and the ability to navigate social and political opposition (Hussain, 2022b).

Corruption and Financial Mismanagement

Corruption corrodes public trust, undermines the rule of law, and ultimately delegitimizes the state and moral stature of the bureaucracy among the masses (Clausen et al., 2011). Besides, its presence in the public sector shakes people's confidence in public institutions as it increases transaction costs and hampers the efficiency of public services (OECD, 2024). The World Bank considers corruption an impediment to social and economic development as it distorts the rule of law and weakens the institutions (Lyster et al., 2013).

FIGURE 6.7

**PAKISTAN'S CORRUPTION PERCEPTION INDEX**
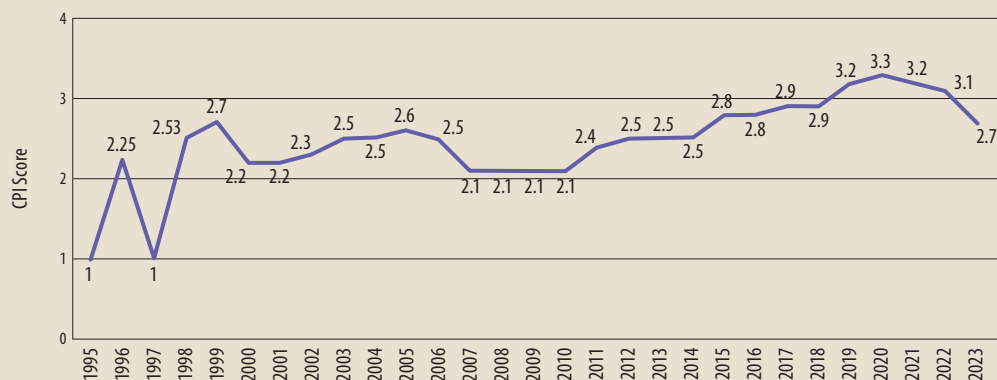
Source: Transparency International.

For the business sector in Pakistan, corruption imposes significant financial and administrative burden on businesses, raising costs, operational risks, and barriers to growth. According to Transparency International's 2023 Corruption Perception Index, Pakistan ranked 133rd out of 180 countries, with consistently low scores highlighting governance challenges, inefficiency, and lack of accountability (Figure 6.7). The Global Competitiveness Report 2019 identified corruption as the second most problematic factor for doing business in Pakistan (World Economic Forum, 2019) while the World Bank Enterprise Survey (2022) ranked it as the second most severe obstacle in doing business (World Bank, 2022). The Global Corruption Barometer (2017) revealed that 25% of respondents in Pakistan had bribed officials to access services, with public officials and police perceived as the most corrupt. Pakistan's "Control of Corruption" percentile rank has fluctuated between 7.5% and 24.3%, reflecting

systemic governance issues (Figure 6.8). These findings underscore the urgent need for rightsizing and restructuring to streamline bureaucratic processes, reduce opportunities for corruption, and enhance governance efficiency.

FIGURE 6.8

CONTROL OF CORRUPTION IN PAKISTAN
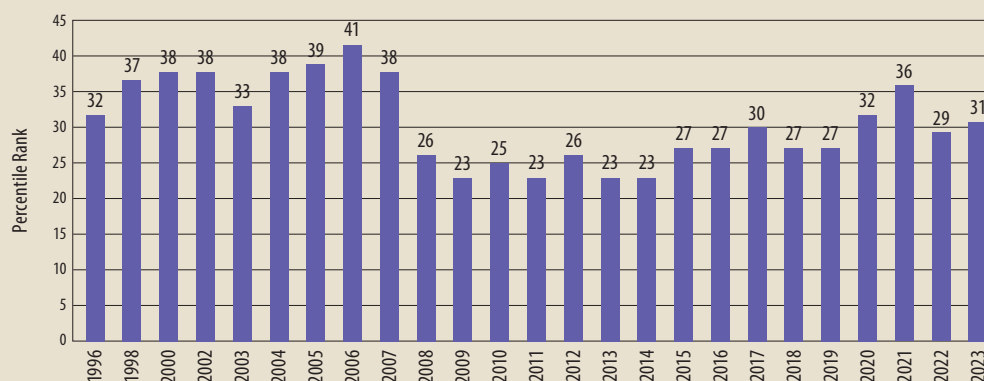
Source: World Bank.

The Auditor General of Pakistan's 2023–24 report revealed irregularities across key sectors, with PKR566.29 billion (~USD2.037 billion) in unauthorized defense expenditures and PKR737.868 billion (~USD2.654 billion) in tax-related irregularities. The Federal Board of Revenue (FBR) has failed to recover significant tax arrears while financial mismanagement in the power sector led to PKR4.5 trillion (~USD16.187 billion) in losses, largely due to nonrecoveries and inefficiencies. The wheat procurement scandal further resulted in losses exceeding PKR300 billion (~USD1.079 billion).

Bureaucratic Inefficiency, Fiscal Overload, and Incomplete Fiscal Devolution

Pakistan's bureaucratic structure is characterized by overstaffing, redundant roles, and outdated processes, leading to significant inefficiencies in government operations (UNDP, 2019). The country's government effectiveness percentile rank demonstrates a mixed trajectory (Figure 6.9)[1]. It shows fluctuating trends, peaking at 41 in 2006 but declining to 31 in 2023 after periods of sharp decline and gradual recovery. Compared to regional peers, Pakistan lags significantly behind India, which consistently ranks above 50, and Sri Lanka, which peaked at 58 in 2014. These disparities highlight the persistent governance challenges in Pakistan and underscore the need for structural reforms to achieve stable and effective governance.

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[1]   World Bank's Government Effectiveness captures perceptions of the quality of public services, the quality of the civil service and the degree of its independence from political pressures, the quality of policy formulation and implementation, and the credibility of the government's commitment to such policies (World Bank, 2024b).

OVERVIEW OF PAKISTAN GOVERNMENT EFFECTIVENESS
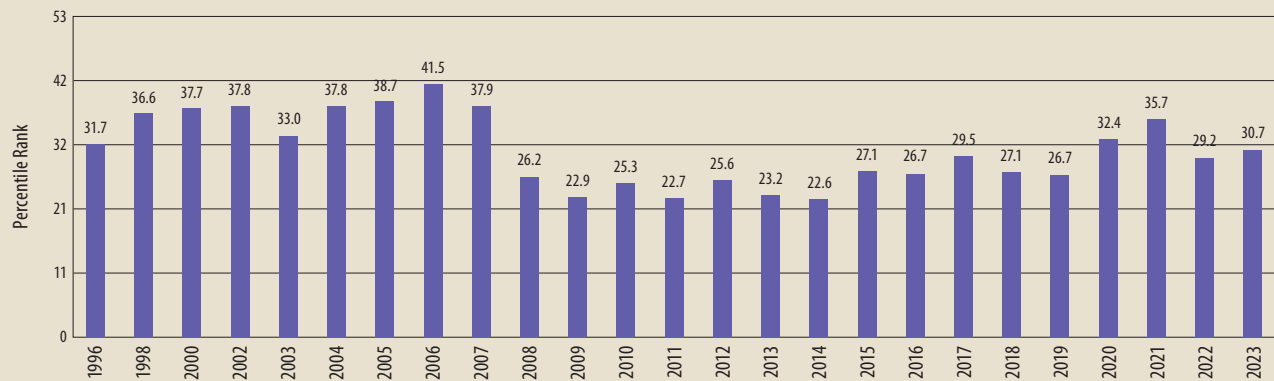
Source: Worldwide Governance Indicators (World Bank, 2024b).

The government of Pakistan spends approximately PKR3 trillion (~USD10.791 billion) on employee salaries, PKR1.5 trillion (~USD5.369) on pensions, PKR2.5 trillion (~USD8.993) on project and organizational workers, and PKR1 trillion (~USD3.597 trillion) on military wages (Haque et al., 2023). The Planning Commission is burdened with managing an unsustainable Public Sector Development Program (PSDP) of over 1,750 projects, many of which are approved with insufficient allocations (Kardar, 2023). These projects frequently experience extensive time and cost overruns, further draining fiscal resources (Hussain, 2024).

Moreover, incomplete fiscal devolution is the key contributor to Pakistan's fiscal strain resulting in inefficiencies and overlapping spending between federal and provincial governments. The 18th Constitutional Amendment (2010) sought to decentralize governance by transferring key responsibilities, such as health, education, and infrastructure, to the provinces. It abolished the Concurrent Legislative List and devolved 47 functions to the provinces. Despite that, the federal government spends significantly on devolved sectors, exacerbating fiscal strain and blurring accountability (Ghaus-Pasha, 2012). In FY2022, federal spending on health, education, and semiautonomous bodies amounted to PKR328 billion (~USD1,180) (0.5% of GDP) while programs like the Benazir Income Support Program (BISP) and federal development projects in devolved areas accounted for PKR315 billion (~USD1.33 billion), and PKR240 billion (~USD863.3 million) (0.4% of GDP), respectively. These overlaps lead to duplication and a structural increase in the fiscal deficit (Chen & Hadi, 2023).

Additionally, a significant duplication exists between the Utility Stores Corporation (USC) (a commercial SOE) and the BISP, both federal-level social welfare initiatives. While BISP's Kifalaat Program provides cash transfers to low-income households, USC distributes in-kind subsidies for essential goods, using BISP's poverty scorecard to determine eligibility. This overlap increases administrative costs and strains government resources, undermining efficiency. In FY2023, BISP spent PKR240 billion (~USD863.31 billion) (Chen & Hadi, 2023) while USC relied on PKR33 billion (~USD118.71 million) in subsidies, creating a massive fiscal burden.

To address these challenges, the World Bank has recommended completing the devolution process, realigning federal expenditures with constitutional mandates, and encouraging provinces to mobilize additional revenues through property and agricultural taxes (Amin, 2023). These reforms could enhance fiscal efficiency, reduce redundancies, and improve governance outcomes.

In addition to the previous demand-side arguments, the NCGR (2008) highlights further arguments for reforms. Pakistan's Vision 2030 emphasizes the need for government restructuring to enhance productivity, competitiveness, and integration into the global economy (Planning Commission, 2007). Lessons from East Asian economies demonstrate the importance of efficiency, decentralization, and public-private partnerships (PPPs) in reducing inefficiencies and promoting competition. Despite efforts like privatization and devolution, Pakistan's institutions remain weakened by poor training, bureaucratic inefficiencies, and a lack of capacity to manage reforms. Moreover, the gap between public expectations and government performance continues to widen, fueled by poor service delivery and demoralized civil servants. Addressing these challenges requires comprehensive reforms focusing on essential government functions, improved governance, and enhanced institutional capacity to meet the country's evolving needs.

Supply Side of Rightsizing and Restructuring: Drivers and Initiatives

Rightsizing and restructuring initiatives are undertaken to enhance governance, productivity, efficiency, and service delivery. Over the years, the federal government has pursued these reforms to strengthen public sector operations and increase the efficiency and effectiveness of services to meet citizens' demands. While rightsizing and restructuring in the context of Pakistan is presented in the "Rightsizing and Restructuring in the Country Context" section and Table 6.1, this section focuses on the federal government's prominent measures.

Performance Contracting to Enhance Bureaucratic Efficiency

Performance contracting has emerged as a critical performance management tool in public sector reform, aimed at promoting accountability, efficiency, and alignment with government objectives. It entails setting measurable objectives or performance standards for ministries to achieve within a defined timeframe, followed by performance evaluation against these benchmarks. This approach fosters results-oriented evaluation, operational autonomy, and innovative management practices, improving public sector efficiency and resource utilization while ensuring accountability (OECD, 1999). Known by various names globally, such as Performance Agreements (PAs) or Memoranda of Understanding, performance contracting has proven effective in modernizing public management and enhancing service delivery (Commonwealth Secretariat, 1995).

In Pakistan, the concept was introduced in 2014 through a pilot program involving 10 ministries under the Ministry of Planning, Development & Special Initiatives and UNDP's "Reforms and Innovation in Government for High Performance" project. It evolved into a formalized Performance Agreement in 2019 and was implemented across 41 ministries in 2020 through a structured three-stage process emphasizing target setting, peer review, and quarterly evaluations (Ishaque, 2021). In March 2022, the federal government adapted it into a Strategic Roadmap (SR), focusing on thematic areas, such as economic stabilization and energy security while reducing participating ministries to eight. Unlike the ministry-centric PAs, the SR emphasizes thematic priorities, fostering a cohesive and targeted governance strategy aligned with evolving national challenges. Together, these initiatives seek to embed transparency, accountability, and agility into Pakistan's public sector performance management, thereby addressing reform agendas and achieving high-impact outcomes (Hussain, 2023).

Reforming SOEs

The reform and restructuring of SOEs in Pakistan is a critical initiative to enhance their operational efficiency and financial performance. The government of Pakistan also recognized the financial burden and inefficiencies associated with its extensive SOE portfolio. In response, the government initiated a comprehensive triage of these SOEs in November 2019 as part of the IMF Extended Fund Facility (EFF) 2019–22 structural benchmark. This review categorized SOEs for retention, privatization, or liquidation, based on their financial performance and alignment with national policy objectives (IMF, 2019). The report was finalized with IMF input and approved by the Cabinet Committee on SOEs and the Federal Cabinet in January 2021. It laid a roadmap for rationalizing the SOE portfolio,

reducing fiscal risks, and enhancing the performance of essential public service providers (Finance Division, 2021).

The government plans to improve the financial performance of SOEs (Finance Division, 2021):

- **The State-owned Enterprises (Governance and Operations) Act** - Promulgated in 2023, the Act provides a comprehensive framework for improving the governance, accountability, and financial efficiency of SOEs in Pakistan

- **The State-owned Enterprises (SOEs) Ownership and Management Policy** - Formulated in 2023 in light of the Act, the policy establishes a framework to enhance governance, performance, and fiscal discipline in Pakistan's SOEs. It categorizes SOEs, sets standards for board performance, and strengthens oversight through the CMU. The policy emphasizes transparency, competitive neutrality, and alignment with international best practices to improve public service delivery

- **Establishment of a CMU within the Finance Division** - The unit functions as the central database and analytical unit for all SOEs. It prepares periodical performance evaluation reports and assists the government in making informed decisions

Additionally, the current federal cabinet has approved the merger and dissolution of 82 SOEs. A dedicated committee has been formed to safeguard the interests of employees affected by these changes, ensuring a smooth transition and fair treatment (Business Recorder Web Desk, 2024).

Privatization

Privatization policies gained momentum in Pakistan during the 1990s, with successive governments adopting deregulation, liberalization, and privatization strategies. The program began in 1988 but made limited progress, privatizing only 10% of PIA's shares before a change in government. The Privatization Commission was established in 1991, leading to the privatization of two banks and the sale of 47 units by 1992. Between 2000 and 2008, the privatization program expanded into capital-intensive sectors, such as telecommunications, energy, and manufacturing, resulting in 60 units sold for PKR416 billion (~USD1.496 billion), compared to 100 units sold for PKR59 billion (~USD212.23 million) during 1988–99. Significant transactions during this period included the privatization of United Bank Limited (UBL), Pakistan Telecommunication Company Limited (PTCL), Habib Bank Limited (HBL), Karachi Electric Supply Company (KESC), and the National Refinery, mostly acquired by foreign investors (Tahir, 2014; Zakaria, 2008).

However, privatization halted in 2006 when the Supreme Court annulled the sale of Pakistan Steel Mills over undervaluation. Earlier, the privatization of KESC faced criticism for lack of transparency, and the company continued to rely on government bailouts while failing to resolve frequent power cuts (Khan, 2020).

The government's current Privatisation Programme (2024–29) outlines the phased approach to privatizing several SOEs across various sectors to reduce fiscal burdens, improve efficiency, and stimulate economic growth. The program is divided into three phases:

- Phase I (one year) involves the initial privatization steps

- Phase II (one to three years) focuses on more complex privatization

- Phase III (three to five years) tackles the privatization of more mature and larger enterprises

This structured timeline aims to ease the process, ensure proper valuation, and optimize government and private sector outcomes. The program targets sectors, such as aviation, finance, retail, industrial, and power (Ministry of Privatisation, 2024).

In the privatization program's first phase, PIA was presented. It was scheduled to be completed on 1 October 2024. However, it faced setbacks, including a failed bid when the sole bidder offered PKR10

billion (~USD35.97 million) for a 60% stake, substantially below the government's PKR85.03 billion (~USD305.86.23 million) expectation (Ghauri, 2024). These challenges highlight the complexity of reforming and restructuring SOEs amid regulatory, financial, and political hurdles.

Strengthening e-Governance

E-governance integrates ICT into government systems to enhance efficiency, accessibility, and convenience. In Pakistan, the National Information Technology Board (NITB), established in 2014 through the merger of the Pakistan Computer Bureau and the Electronic Government Directorate, is pivotal in advancing e-governance. Elevated to an autonomous body in 2022, NITB has delivered over 180 successful projects, including government-to-business (G2B), government-to-citizen (G2C), and government-to-government (G2G) initiatives. It supports federal ministries and divisions by streamlining service delivery, automating processes, and aligning IT policies with national objectives. With a vision to foster innovation, business growth, and global competitiveness in Pakistan's IT sector, NITB serves as a cornerstone for digital transformation, aiming to make government services more accessible, economical, and citizen-centric (NITB, 2024).

Moreover, Pakistan has developed its IT sector through the Pakistan Digital Policy 2018, which supports a knowledge-based economy with tax benefits and IT parks. Key programs include e-governance projects led by NITB, the National Incubation Center (NIC) to support start-ups, and DigiSkills.pk, which has trained freelancers who have collectively earned over USD290 million. Further, the Ignite Innovation Fund and other innovation centers have been created to promote technology, entrepreneurship, and digital growth. These policies are developed to transform Pakistan into a digitally empowered economy.

Locus, Focus, and Actors in Rightsizing and Restructuring Initiatives

The motivation behind the restructuring and rightsizing initiatives in Pakistan's public sector should be to enhance productivity and instill a service-oriented approach. These reforms are driven by the need to deliver more public services with fewer resources, emphasizing efficiency rather than a hasty reduction in staff or extensive cuts to public expenditure. The goal should be to improve productivity and ensure that the public sector can meet its obligations effectively without sacrificing quality or service delivery. This approach prioritizes sustainable reforms that align with the broader objectives of enhancing government performance and fiscal responsibility. As Osborne and Gaebler (1992) suggested, reforms must focus on achieving specific goals to improve governmental effectiveness.

Rightsizing and restructuring efforts in Pakistan's public administration have involved multiple stakeholders. The locus of these initiatives is primarily at the federal level, where the focus is on: (i) federal ministries (streamlining administrative structure to eliminate duplication and improve efficiency); (ii) SOEs (reform or privatizing inefficient SOEs guided by the State-Owned Enterprises Act (Governance and Operations) 2023 to reduce financial burden on government); and (iii) public financial management (streamlining public spending, particularly in subsidies).

These reforms focus on improving efficiency across key areas, such as addressing the duplication and overlapping of devolved provincial subjects at the national level, restructuring and privatizing SOEs, rationalizing public expenditure, especially subsidies, and reallocating surplus staff. A central priority is reforming SOEs, with the State-Owned Enterprises (Governance and Operations) Act 2023, which provides a framework for achieving sustainable reforms. The accompanying SOE Policy 2023 outlines objectives to enhance governance, ensure fiscal responsibility, and mitigate fiscal risks by privatizing or restructuring nonessential and nonproductive SOEs. It emphasizes transparency, accountability, and competitive neutrality, supported by oversight mechanisms like the CMU to guide restructuring efforts. Also, other focus area includes bureaucratic efficiency through performance contracting, digital transformation, and e-governance, for which the NITB has launched over 180 digital initiatives.

Key actors in the rightsizing process include policymakers, bureaucrats, public sector employees, civil society organizations, citizens, and donor agencies along with government institutions (the Privatisation Commission, the Ministry of Finance, and the Planning Commission). Policymakers are central to this process, providing strategic direction, legal frameworks, and political leadership. Civil society organizations also play an essential role by lobbying for reform while international organizations such as the IMF (in reform and restructuring of SOEs), World Bank (in structural reforms), and UNDP (in performance contracting) have provided vital technical assistance. As part of the Extended Fund Facility (EFF) agreement, the IMF has urged Pakistan to adopt reforms, particularly in SOEs. The reforms aimed at reducing fiscal deficits and improving government efficiency, thus influencing the current rightsizing approach. These international bodies have supported Pakistan in implementing modern governance practices, ensuring that reforms align with global best practices while addressing local challenges.

Employees and trade unions have become key actors in the rightsizing process, significantly impacting the reform trajectory. Their resistance has stalled the privatization of several SOEs, including the USC, PIA, and power distribution companies. They have consistently opposed privatization, raising concerns about job security and the potential loss of benefits. This resistance underscores the complexity of SOE reforms, highlighting the need to balance employees' interests with the broader objectives of efficiency, sustainability, and fiscal responsibility.

Rightsizing and Restructuring in Pakistan: Achievements, Challenges, and Barriers to Reform

Over several decades, Pakistan has undertaken multiple efforts to rightsize and restructure its public sector, aiming to enhance governance, improve efficiency, and reduce fiscal burdens. Despite these well-intentioned reforms, progress has been inconsistent, with significant achievements alongside persistent challenges and barriers. This section explores both the successes and setbacks of these reform initiatives, shedding light on the complex dynamics that have shaped their outcomes.

Rightsizing and Restructuring in Pakistan: Challenges and Achievements

Multiple commissions and committees have been constituted over the years to address the size of the federal government in Pakistan (see "Rightsizing and Restructuring in the Country Context" section and Table 6.1). These efforts have consistently emphasized reducing the number of ministries, divisions, and redundant organizations to curtail administrative costs and streamline governance. For instance, the Economy Commission (1991–93) recommended reducing divisions from 46 to 29 and abolishing 75 redundant organizations while the Chattha Commission (1995) proposed reducing divisions from 48 to 32. The Caretaker Government (1996–97) managed to decrease ministries from 29 to 26 and divisions from 48 to 31, although implementation fell short. The Dr Pasha Committee (1997) further recommended reducing ministries to 18 and divisions to 24.

Building on these earlier recommendations, the CRR (2000) and the NCGR (2008) were both established to enhance efficiency and reduce costs in government operations. The CRR focused on flatter structures, rationalizing divisions, reducing the officer-to-staff ratio, retraining surplus employees, and introducing performance-based budgeting and service standards. It promoted citizen charters, and the rationalization of divisions from 30 to 21. It also recommended privatization or closure of entities that outlived their utility and advocated for long-term civil service training and capacity-building as central reforms. Meanwhile, the NCGR (2008) emphasized devolving powers to provinces in key sectors like education and health, reducing federal ministries and divisions from 41 to 23 and divisions from 46 to 37, restructuring civil services into four categories, and implementing a performance management system with measurable promotion criteria. Both initiatives prioritized capacity-building, accountability, and responsive governance to meet modern challenges.

The 18th Constitutional Amendment 2010, further sought to decentralize governance by abolishing the Concurrent Legislative List and transferring 47 functions, including education, health, and infrastructure, to the provinces. However, the federal government has continued to spend significantly on devolved sectors, thereby exacerbating fiscal strain and blurring accountability.

Despite these well-intended reforms, progress has remained slow. At the latest administrative configuration, the federal government comprises 34 ministries and 41 divisions. To address this, a renewed focus on rightsizing emerged in August 2024, culminating in the formation of a Rightsizing Committee under Finance Minister Muhammad Aurangzeb. This committee has been tasked with streamlining government operations, reducing expenditures, and aligning federal structures with provincial obligations while integrating private sector roles and improving resource management.

FIGURE 6.10

SIZE OF GOVERNMENT WITH TOTAL EXPENDITURES AS PERCENTAGE OF GDP
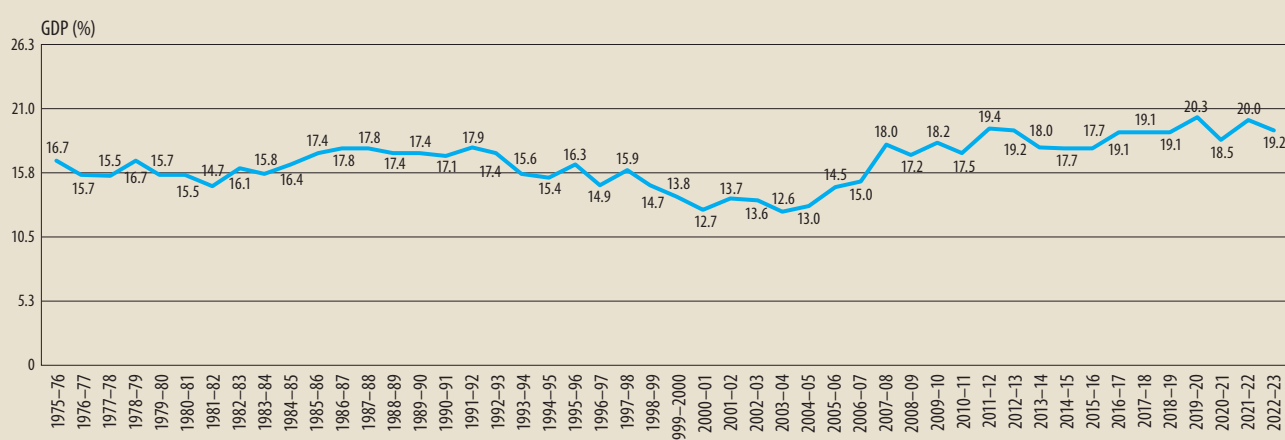
Source: Finance Division.

Evan with decades of reform efforts, government expenditures as a percentage of GDP have remained high, fluctuating between 15% and 20% (Figure 6.10). This trend highlights systemic barriers, political resistance, fragmented implementation, and growing demands for public services that have stalled meaningful reductions in government size. The persistent overgrown bureaucracy and centralized structures continue to strain fiscal sustainability and contribute to citizen dissatisfaction. While repeatedly proposed, structural reforms have not yet delivered sustained or substantial change to the government's fiscal footprint.

In spite of reform challenges, Pakistan has made some significant progress in modernizing public governance through targeted initiatives. Performance contracting has been introduced to enhance efficiency by aligning ministry goals with national priorities, reducing redundancies, and optimizing resources. Pakistan has advanced its IT sector through initiatives like the Pakistan Digital Policy 2018, which promotes a knowledge-based economy with tax incentives, IT parks, and financing. E-government initiatives, led by programs like DigiSkills.pk and Ignite's Innovation Fund, have driven digital transformation, fostering innovation, and creating jobs (Board of Investment [BOI], 2024). The e-governance initiatives have significantly streamlined time-consuming processes, such as issuing passports, identification cards, and driving licenses. This reflects the efficient restructuring of government operations through technology, minimizing the need for excess human resources and office space. Additionally, one-window operations at passport offices, airports, and urban centers have simplified citizen services, reflecting a shift toward responsive, efficient governance that embraces

innovation and aligns with global best practices (Overseas Pakistan Foundation [OPF], 2025; ProPakistan, 2024).

The Devolution of Power Plan (DOPP) of 2001, introduced under General Pervez Musharraf's regime, also aimed to decentralize authority, empower local governments, and enhance citizen participation. By transferring powers to local councils, it streamlined governance and reduced bureaucratic layers. Although it initially succeeded in expanding participatory governance, the plan's sustainability was hindered by political challenges, weak institutional capacity, and inconsistent implementation (Alam, 2001). Despite constitutional protections, the system eventually collapsed due to provincial reluctance to implement a new local government framework. Over time, the responsibility for local elections shifted from provincial bodies to the Election Commission of Pakistan (ECP) in 2001. The 18th Constitutional Amendment (2010) and the Elections Act (2017) institutionalized the system, but provinces have frequently delayed elections, undermining the continuity and sustainability of devolution and the intended benefits of decentralization (Accountability Lab, 2024).

Barriers to Effective Rightsizing and Restructuring in Pakistan

Pakistan has initiated several reforms aimed at rightsizing and restructuring the public sector to improve efficiency, reduce fiscal burdens, and promote governance. However, many of these efforts have faltered due to incomplete implementation, lack of sustained political will, and resistance from entrenched bureaucratic interests. Despite widespread acknowledgement of the need for reform, political instability and inadequate institutional capacity have hindered progress. For example, the devolution of powers under the 18th Constitutional Amendment aimed to decentralize responsibilities to provincial governments, but incomplete fiscal devolution has led to duplication of subjects and inefficient spending.

The Citizen Client Charter (CCC), introduced in 2012, was intended to improve public service delivery by making it demand-driven. Despite setting standards for service availability, consumer choice, and grievance redress mechanisms, the initiative failed to sustain momentum due to political instability, policy inconsistency, and frequent government changes that disrupted its implementation. The nationalization of industries in the 1970s created an oversized public sector and numerous SOEs, many of which have struggled with inefficiencies and underperformance. Over the years, governments have attempted denationalization and implementation of NPM reforms, but political will has often been lacking. Political exigencies and shifting national priorities have consistently disrupted efforts to reform the public sector, undermining long-term initiatives to improve efficiency and governance. Bureaucratic interests and powerful trade unions have also consistently thwarted efforts, as seen in the failed privatization of the USC, where employee protests and political opposition led to the abandonment of the initiative. These setbacks have perpetuated inefficiencies, a bloated bureaucracy, and fiscal strain. The privatization of other SOEs has similarly faced delays, with state-owned entities continuing to drain public resources. Successful rightsizing and restructuring in Pakistan depend on stronger political commitment, effective implementation, meaningful stakeholder participation, and long-term institutional reforms.

Conclusion and Recommendations

Conclusion

Pakistan's rightsizing and restructuring initiatives are critical for addressing the deep-rooted inefficiencies plaguing its public sector. While several reforms have been introduced, their success has often been hindered by systemic challenges, such as entrenched bureaucratic interests, political resistance, and weak implementation capacity. The current reforms focus on streamlining government structures, eliminating redundancies, and addressing the fiscal challenges posed by inefficient SOEs. Notable efforts include performance contracting, privatization, and digitization, which aim to modernize governance, improve service delivery, and reduce fiscal burdens. However, these initiatives

require sustained political commitment, strategic implementation, and stakeholder collaboration to achieve the desired impact.

Despite significant challenges, Pakistan's rightsizing agenda is increasingly aligned with global best practices, such as enhanced governance frameworks, privatization programs, and e-governance initiatives. The reforms emphasize creating a leaner, more responsive public sector capable of addressing modern governance challenges and enhancing citizen engagement. These initiatives aim to build a resilient governance framework that supports Pakistan's socioeconomic development goals by focusing on measurable outcomes, transparency, and institutional efficiency. The effective implementation of these reforms remains crucial to restoring fiscal stability, improving governance, and fostering sustainable growth.

Recommendations

The following recommendations offer strategic insights to optimize governance structures and drive continuous improvement in public sector efficiency. The government can enhance efficiency, reduce fiscal burdens, and improve service delivery across key institutions by implementing these targeted reforms.

i)   **Build on past reforms**

Acknowledge and build on the contributions of diligent professionals and public servants by integrating past reform recommendations into current and future initiatives. Establish a mechanism for implementing, monitoring, and evaluating previous reforms to avoid redundancy and ensure the lessons learned shape new strategies. This continuous improvement approach will enhance policy coherence and efficiency, breaking the cycle of repeatedly reinventing solutions.

ii)   **Ensure transparency and inclusiveness**

Guarantee that the reform process, such as in privatization process, is transparent and inclusive by securing support from the current government while maintaining flexibility to appeal to future administrations. This strategy will enhance political buy-in, build stakeholders' trust, and ensure reform efforts' resilience across political transitions.

iii)   **Empower the CMU**

Strengthen the capacity of the CMU to enhance transparency, accountability, and fiscal efficiency in SOE management, in line with its mandate under the SOE (Governance and Operations) Act 2023. Equip the CMU with advanced analytical tools for real-time data tracking, ensure compliance with mandatory disclosures and SMART (Specific, Measurable, Achievable, Relevant, Time-bound) performance indicators, and enforce timely submission of business plans and reports. Strengthen its capacity to assess fiscal risks, review governance structures, and deliver actionable recommendations to the Cabinet Committee on SOEs to drive informed decision-making and sustainable SOE reforms.

iv)   **Address duplication in social welfare programs**

Resolve the duplication of functions between the USC and the BISP, both of which serve as social welfare programs at the federal level. Given USC's reliance on government subsidies, privatization or transitioning to a public-private partnership model can improve efficiency, reduce fiscal burdens, and maintain its social welfare functions. Its operational integration with the BISP eliminates the duplication of social safety nets and improves resource allocation for vulnerable communities. Additionally, rationalizing staffing levels to align with operational needs would eliminate redundant positions while ensuring essential service continuity. A financial severance package should be offered to affected employees as per the approved policy.

v)   Reduce duplication between federal and provincial spending

Measures should address the duplication and overlapping of provincial and federal government spending. This should involve identifying and eliminating direct overlaps between federal and provincial recurrent roles and spending, such as those in health and education ministries, to reduce duplication and waste.

vi)   Encourage the use of digital tools

Promote the use of digital tools to streamline operations, reduce costs, and improve service delivery across all levels of government.

vii)   Prioritize fiscal reforms

Give priority to reforms that reduce the fiscal deficit, focusing on subsidy reform, better targeting public expenditures, and reducing debt dependency.

viii)   Adopt and publicize Citizen Client Charters

All federal ministries and provincial departments must adopt and publicize Citizen Client Charters that define measurable service standards, response times, and grievance redress mechanisms. Establish an independent monitoring body to track adherence to these charters, enhancing accountability and building public trust in government institutions.

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REFORMING PHILIPPINE BUREAUCRACY - RIGHTSIZING AND PUBLIC SECTOR EFFICIENCY

Executive Summary

As part of the Asian Productivity Organization (APO) effort to come up with a comparative analysis of the rightsizing and restructuring initiatives of select member economies, this report will discuss the Rationalization Program (RP) implemented by the Philippine government from 2004 to 2013.

The RP was prompted by the need to rationalize the operations and organizations of the government to improve the quality and efficiency of its public service delivery, as mandated under Executive Order No. 366 dated 4 October 2004 (EO 366, 4 October 2004). This need arose in response to the prevailing environment in the early 2000s, some of which included: (i) an increased number of clients seeking government services due to increasing population; (ii) changing client needs and expectations; (iii) undue expansion of the size of the government due to involvement in many areas of societal concerns, thus resulting in a thin spread of resources; and (iv) rapid technological advancements that require different ways of delivering services.

The crafting of the RP was conceptualized by the Presidential Committee on Effective Governance (PCEG), which had been created to formulate an Institutional Strengthening and Streamlining Program for the Executive Branch under Executive Order No. 165 dated 19 October 1999 (EO 165, 19 October 1999). Under the RP, all government departments and agencies were mandated to develop a Rationalization Plan that will transform the bureaucracy into a more efficient and effective institution to deliver core public services.

Led by the Department Secretary, the preparation of the Rationalization Plan was consultative in nature. It required the creation of a Change Management Team (CMT), and where necessary, sub-CMTs. The Plan had to identify, among others: (i) shifts in policy direction, strategies, programs, and projects as well as the phasing of the intended shifts; (ii) functions, programs, and projects that would be scaled down, phased out or abolished, and corresponding changes in organizational structures, staffing and resource allocations; and (iii) an internal and external communication plan that will convey the process internally to the employees and externally to the other stakeholders of the department (EO 366, 4 October 2004).

Recognizing that any initiative of this nature is likely to impact employees, the RP provided several safety nets. Affected employees were allowed to choose from any of the three options: (i) retire with incentives; (ii) transfer to other agencies of their choice which needed additional personnel; or (iii) remain in their agency, but their positions were made co-terminus with their stay in the agency. Additionally, a Skills, Livelihood, and Investment Program was implemented to assist those who opted to leave government service and pursue business and/or investment opportunities, or employment in the private sector. An Appeals Mechanism was also put in place for affected employees.

The implementation of RP afforded departments and agencies with the opportunity to examine what they were doing in order to focus their efforts and resources toward core functions, minimize or

eliminate overlaps and duplication, and improve service delivery and support systems and procedures. It also enabled them to review and improve their organizational structure, staffing, and personnel mix.

The RP also allowed them to retain the savings generated from the effort to fund their priority undertakings. Personnel services savings amounting to PHP4.273 billion (~USD73.04 million) at FY2005 levels (or PHP7.264 billion (~USD124.17 million) at FY 2012 level) were realized, representing the abolition of 22,471 permanent, 4,010 contractual, and 7,984 casual positions. Payments for incentives and terminal leave benefits amounted to PHP6.621 billion (~USD113.18 million). A total of 974 personnel opted to transfer to other agencies needing additional personnel, with the placement mechanism handled by the Civil Service Commission (CSC) (DBM Terminal Report, February 2014).

However, the consultative nature of the Program dragged its implementation. Consultations were conducted at the department and agency levels before submission of the Rationalization Plans to the Department of Budget and Management (DBM), which was tasked with evaluating them. Similarly, the DBM had to consult the departments and agencies before finalizing and approving the plans. Despite these efforts, the DBM continued to receive requests for reconsideration or revisions even after approval.

Furthermore, changes in the leadership in some departments and among the CMT members also caused delays as these meant another review of the Rationalization Plan.

On the whole, it could be concluded that the successful implementation of any reform initiative required four crucial elements: (i) leadership or political will to give a strong signal on its importance; (ii) a robust change management program involving constant communication prior to, during, and after the implementation to both internal and external stakeholders to enable buy-in; (iii) the provision of continuing and proactive technical assistance to the implementors and stakeholders concerned; and (iv) safety nets to be made available to those who may be affected. However, while consultation is necessary, it is equally important to set a limit to the consultative process to prevent undue delays in implementation or cause reform fatigue among those concerned.

Introduction

The Rationalization Program (RP) was implemented by the Philippine Government under Executive Order No. 366, entitled "Directing a Strategic Review of the Operations and Organizations of the Executive Branch and Providing Options and Incentives for Government Employees Who May Be Affected by the Rationalization of the Functions and Agencies of the Executive Branch", which was issued on 4 October 2004. Its primary objectives were to: (i) focus government efforts on its vital functions and use its limited resources on its core government functions and programs; and (ii) cut down waste and overlaps by rationalizing service delivery and support systems by scaling down, phasing out, or abolishing non-core functions and programs.

The RP was chosen as the subject of this study as it is the latest government-wide initiative in conducting a strategic review of its operations and organizational structure to improve effectiveness and efficiency. The scope of the RP extended beyond organizational restructuring or streamlining.

The mechanics of the Program, the processes involved, and the results of its implementation will offer valuable insights not only to the Philippine government, but also for other countries considering to embark on a similar reform effort.

Background

Under the Philippine Constitution of 1987, the powers of government are distributed in three branches, which are Legislative, Executive, and Judicial.

The legislative power is vested in the Congress of the Philippines, which is composed of a Senate and a House of Representatives. The judicial power is vested in the Supreme Court and in such lower courts as established by law. The executive power is vested in the president, who is assisted by a vice president and members of the Cabinet (Secretaries), each of whom heads a department created to carry out the functional distribution of the president's work (Constitution of the Philippines, 1987). Under this structure, reorganizations must be authorized by a law passed by Congress.

In February 1986, a nonviolent People Power Revolution took place in the Philippines. It ended the 20-year rule of President Ferdinand E. Marcos. A snap presidential election held that same year led to the installation of Corazon Aquino as President. After her accession to power, President Aquino issued a proclamation that established a revolutionary government and gave her executive and legislative powers. She subsequently constituted a commission to write a new constitution, which was ratified through a nationwide plebiscite in February 1987.

On 25 July 1987, President Aquino signed Executive Order No. 292, known as the Administrative Code of 1987. This document consolidated into a single code the major structural, functional, and procedural principles and rules of governance. The Administrative Code of 1987 became the basis for the reorganization of various departments and agencies of the government during that period.

In the late 1990s to the early 2000s, some departments and agencies tried to pursue different avenues to undergo organizational modification - submitting a reorganization proposal to either the Office of the President, to Congress, or to the DBM, which is mandated under EO 292 to conduct continuing studies on organizational changes of agencies.

However, the environment in which the last major reorganization took place in 1987 was markedly different from the context prevailing in the late 1990s to early 2000s, under which departments and agencies were operating. This was witnessed in terms of increased number of clients served due to a rising population, changing client needs and expectations, a higher level of organizational resources (such as funds managed, staffing, and personnel), and changes in the way of doing things or providing services. The government had also become involved in nearly every area of societal need, resulting in a thin spread of government resources, especially in priority areas of concern, such as education, health services, and peace and order. Furthermore, some agencies had arguably outlived their original purpose while certain functions could be more appropriately handled by the private sector.

In this context, the RP was conceptualized by the Presidential Committee on Effective Governance (PCEG), created under EO 165 (Directing the Formulation of an Institutional Strengthening and Streamlining Program for the Executive Branch), dated 19 October 1999. The RP was formulated in accordance with one of the PCEG's functions, which was to prepare a Public Sector Institutional Strengthening and Streamlining Agenda that would establish the framework, governing principles, guidelines, and pacing for a comprehensive institutional development and streamlining processes, which could be done administratively, that is, through Presidential action.

The PCEG utilized two provisions of Republic Act (RA) No. 9206, or the General Appropriations Act (GAA) of 2003, as basis for the actions which can be undertaken by the Executive Branch in rationalizing government operations and organizations. Section 77 of the General Provisions of RA 9206 authorized the President to direct changes in the organizational units or key positions within any department or agency. Additionally, Section 78 of the same law authorized the President to require all departments and agencies of the Executive Branch to conduct a comprehensive review of their respective missions, objectives, functions, programs, projects, activities, systems, and procedures, with the goal of identifying areas for improvement and implementing structural, functional, and operational adjustments to improve government service delivery and productivity (RA 9206, 23 April 2003).

Rightsizing in the National Context

The Rationalization Program (RP) covered all departments of the Executive Branch, including all the component units and agencies under their administrative supervision as well as government corporations attached to a department for policy and program coordination. However, there are exemptions, such as entities that had recently undergone reorganization, currently undergoing reorganization under specific laws, and those which have no organic personnel or maintained a very lean staffing. EO 366 likewise provided that constitutional offices, the legislature, the judiciary as well as state universities and colleges may voluntarily opt to review their respective operations and organization.

The EO mandated the Department Secretaries to take the lead in conducting a strategic review of their respective operations and organization. Section 3 of the EO outlined the framework by which the strategic review will be conducted, specifically: (i) to focus government efforts on the exercise of its fundamental functions and provide the appropriate social, political, and economic environment within which development can prosper; (ii) to transform the bureaucracy into an effective and efficient institution for the delivery of core public services; and (iii) ensure the long-term sustainability of core government services through resource mobilization and cost-effective public expenditure management.

In the conduct of this review, the Implementing Rules and Regulations of the EO (IRR of EO 366, 11 May 2005) mandated the creation of a Change Management Team (CMT) in each department. Sub-CMTs could also be created for different organizational levels or specific areas of concern. Both the CMT and sub-CMTs were required to have a representative from the accredited union sitting in as a member. However, in the absence of an accredited union, the rank and file employees were instructed to elect from among their ranks the representative to serve on the CMT or sub-CMTs.

As an offshoot of the strategic review, a Rationalization Plan had to be prepared for the whole department, which was to include the following elements:

i)   **The core functions, programs, activities, and services of the department and its units and agencies -** These refer to what were deemed as core after assessing the relevance of each function, program, activity, and service being performed or undertaken by a department or agency in relation to the overall attainment of its/their mandate.

ii) **The specific shifts in policy directions, functions, programs, projects, activities, and strategies, indicating the phasing of the intended shifts -** These may include targeted improvements in operations to achieve desired outputs and outcomes as well as broad organizational strengthening strategies, which are planned to be implemented.

iii) **The functions, programs, and projects that would be scaled down, phased out, or abolished -** These may cover those that unnecessarily duplicate or overlap with others, fail to produce the desired outputs and outcomes, or could be appropriately done by the private sector or have already been devolved to local government units.

iv) **The functions, programs, and projects to which additional resources would be channeled -** These can include those that support the core or fundamental functions, programs and, services identified.

v)   **The resulting structural and organizational shift, indicating the specific changes in the units and agencies of the department -** This may involve the abolition, deactivation, merger, or consolidation of units or agencies in a department as may be allowed by law, or the strengthening of those performing the core functions.

vi) **The staffing shifts, indicating the changes to be made in the staffing pattern and personnel of the department and its agencies, and the organizational strengthening strategies that need to be implemented -** The shift may cover the changes in the staffing pattern or personnel mix as well as the necessary human resource development interventions, such as capacity building.

vii) **The resource allocation shift, specifying the effects of the streamlined setup on the budgetary allocations of the department and its agencies -** This will show the effects of the changes in the expenditure items, such as in personnel services, maintenance and other operating expenditures, and capital outlays.

viii) **The internal and external communication plan -** This indicate the specific methods and strategies employed or being undertaken in conveying the rationalization process to agency personnel and to other stakeholders.

Personnel affected by the rationalization efforts were given one of the following three options:

i)   Retire with the applicable incentives.

ii)   Transfer to other agencies in need of additional personnel (handled by the CSC, which is the central personnel agency of government), without reduction in salary.

iii)   Remain in their respective mother agency, but their positions will be converted from regular to co-terminus with the incumbent (CTI), to be abolished once vacated, except for personnel in medical or allied medical positions, who were required to transfer to a Department of Health (DOH)-supervised hospital or facility of their choice.

Those personnel who opted to retire or be separated were entitled to the applicable retirement or separation benefits provided under existing laws, along with incentives, except those retiring under a specific law (RA 1616), which granted a lump-sum retirement benefit payable by the National Government, and not by the Government Service Insurance System. The incentive was computed as follows:

i)   One half (1/2) of the basic monthly salary for every year of government service for those who have rendered less than 21 years of service.

ii)   Three-fourths (3/4) of the basic monthly salary for every year of government service, computed from the first year, for those who have rendered 21 to less than 31 years of service.

iii)   One (1) basic monthly salary for every year of government service, computed from the first year, for those who have rendered 31 or more years of service.

The Program also stipulated that personnel who voluntarily retired or separated as a result of the rationalization efforts were not to be appointed or hired in any agency of the Executive Branch, with the exception of educational institutions and hospitals, within a period of five years.

In cases where savings were generated from Personnel Services, such as salaries and allowances of retired or separated personnel, the departments and agencies concerned were allowed to retain the savings for the purpose of funding priority programs and projects.

To help provide opportunities for personnel who opted to leave government, a Skills/Livelihood and Investment Program (SLIP) Team was organized. The SLIP Team, composed of relevant government agencies, was structured into three group, as follows:

i)   **Business Opportunities Group -** Tasked with providing trainings and financial assistance to affected personnel intending to start a business or organize a cooperative.

ii)   **Job Facilitation Group -** Established to assist affected personnel seeking employment opportunities in the private sector.

iii)   **Investment Services Group -** Responsible for providing information and guidance regarding investment opportunities.

Demand Side of Rightsizing

Over the years prior to the conceptualization of the RP, the government had the tendency to overexpand and self-perpetuate in almost every area of societal need. A problem or an issue was at times addressed through the creation of a government program or project, or, at most, an agency. This situation resulted in a thin spread of government resources across a variety of concerns, especially in areas where government support was most critically needed.

As a consequence, the government was weak in the performance of its core functions, particularly in the areas of peace and order, the administration of justice, social services, natural resources protection and development, and infrastructure development, among others.

There was also unclear delineation of functions among the different levels of government, i.e., between and among the national government, local government units (LGUs), and government-owned and/or -controlled corporations (GOCCs). Certain functions that had already been devolved to the LGUs were still being undertaken by national agencies. In some cases, nonproprietary functions, such as imposing regulations to certain industries, which ought to be undertaken by regular agencies are assigned by law to certain GOCCs.

Proliferation, duplication, and overlapping of missions, functions, and programs were also present between agencies and even within agencies. The laws that created certain agencies provided broad missions or vague statement of functions, resulting in overlapping functions, programs, and projects.

Furthermore, there were also gaps in the planning and budgeting systems. Plans were not directly incorporated into the preparation of the annual budget and the connection among planning, budgeting, and performance management were also weak.

The government also had to keep pace with changing demands and technologies. What may have been relevant and necessary for the government to undertake a number of years ago may no longer be necessary or suitable in the present context.

In addition, different regulatory frameworks may also be required in view of developments in the evolving global and private sector fronts.

Some client needs may have also changed over time. Thus the public had begun to demand better services, greater efficiency, and more value for their money.

Therefore, there was a compelling need for the government to review its operations to remove redundancies, overlaps, and duplications, and improve on its operations. It needs to focus on the work that it must do and channel available resources toward its most vital functions and services.

Supply Side of Rightsizing

On the part of the government and its clientele, the RP was expected to bring about the following outcomes:

• Strengthen its vital functions

• Provide better funding for its priority programs and projects

• Improve its service delivery to the public

• Increase the satisfaction of clients availing of government services

• Improve the morale of government employees

The government would be able to focus on the performance of its fundamental functions, allocate more resources towards these areas, and, in doing so, ideally deliver better services. This could translate into increased public satisfaction with the government's performance. Similarly, government employees would be able to focus on certain vital functions and be supported through appropriate interventions, such as trainings to support work improvements as well as better incentives.

The implementation of the Program provided departments and agencies of the government with two significant opportunities. First, they were allowed to keep their savings as a result of the Program's implementation to fund priority programs and projects. Secondly, the Program provided an opportunity for the agencies to examine and improve their service delivery, support systems, and procedures as well as their staffing and personnel mix.

With better systems and procedures and more resources to implement their programs and projects, coupled with the appropriate manpower to do the same, the departments and agencies can be made accountable for better performance.

To safeguard affected personnel, the Program offers flexible transition options. Employees could choose to retire with incentives, ensuring some financial security upon exit. Alternatively, they could remain in their respective agencies, though their positions will be reclassified from regular to co-terminus status (tied to the incumbent's tenure), with an exception for personnel occupying medical or allied medical positions who are to be transferred to a Department of Health-supervised hospital or health facility of their choice. A third option allows reassignment to other agencies requiring additional personnel, which ensures continued employment within the public sector.

Although some employees were inevitably affected by the rationalization effort, they were not forcibly removed from government service. Rather, they were allowed to choose from any of the three options made available.

Locus, Focus, and Actors of the Program

Locus of the Program
The Rationalization Program covered all the departments of the Executive Branch, including their component units as well as the government corporations, boards, task forces, councils, commissions, and all other agencies either attached to or under the administrative supervision of a department. However, it did not extend to agencies that were already undergoing reorganization as mandated by separate laws. Agencies that had recently reorganized following the issuance of Executive Order 366 were required to submit a request for exemption, with each case evaluated on a case-to-case basis. Also exempted from coverage were agencies with no organic personnel or with a very lean staffing.

Constitutional offices, the legislature, the judiciary, and the state universities and colleges were optionally covered by the Program. LGUs were not included within the scope of the Program due to their status as autonomous units governed by the provisions of the Local Government Code of 1991.

Focus of the Program
This research undertaking focuses on the results of the implementation of the Program in the various departments and agencies of the Executive Branch, including GOCCs.

Of the 178 departments, agencies, and GOCCs expected to submit their respective Rationalization Plan, 162 submitted their plans before the 28 February 2013 deadline, representing a 91% submission rate. The remaining 16 entities were those which have either failed to submit a plan, withdrew their plan, or had their plans returned by the DBM for revision but failed to resubmit within the prescribed date. These entities, having failed to comply within the submission deadline, were subjected to certain limitations concerning the filling of positions and hiring of personnel. Specifically, they were only allowed to fill 50% of their funded permanent positions. They were also required to reduce their budgetary allocation for consultants, contractual, casual, and similar nonpermanent personnel by 10%.

As mentioned earlier, the Program had two overriding goals. The first is to focus government efforts on its vital functions and channel government resources on these core public services. While the second is to minimize or eliminate overlaps and duplication by rationalizing service delivery, support systems, organizational structures, and staffing within a department or agency.

With regard to the first goal, the Terminal Report cited some specific results, including the following:

i)   **Department of Agriculture -** Strengthening of its functions related to extension policy development, standards-setting, extension systems planning, monitoring and evaluation as well as formulation of extension agenda and program at both the national and regional levels.

ii) **Department of Environment and Natural Resources -** Enhancing its enforcement functions relative to environment and natural resources laws through stronger coordination with local government units and other law enforcement agencies.

iii) **Department of Health -** Improving policy formulation, regulation, and technical leadership in the health sector as well as strengthening of its advocacy, and external networking/linkage activities, including its capacity in providing technical assistance to LGUs.

iv) **Department of Tourism -** Strengthening of promotional efforts for tourism enterprises in major international gateways and satellite destinations to encourage private sector investment and participation in tourism activities and projects.

v)   **Commission on Higher Education -** Reinforcing the performance of its quality assurance functions by pursuing initiatives, programs, projects, and activities that are anchored on learning competency standards and outcomes as well as the development of a typology of higher education institutions.

With respect to the second goal of minimizing or eliminating overlaps, duplications, or obsolete functions, hereunder are some actions undertaken, as indicated in the Terminal Report:

i)   **Department of Science and Technology -** Gradual phase-out of the provision of technological services, which are already being undertaken by the private sector.

ii) **Agricultural Credit Policy Council -** Disengagement from the direct provision of lending services to agricultural stakeholders by allowing government financial institutions to provide the same.

iii) **Information and Communications Technology Office (now Department of Information and Communications Technology) -** Discontinuation of the operation and maintenance of long lines relative to long-distance communications services, which are provided by the private sector, and telegraph system services which are no longer economical for the government to maintain due to technological developments and modernization of telecommunications facilities.

iv) **Philippine Carabao Center -** Limitation of extension services to capacitating LGUs and discontinuance of livestock dispersal programs, except for research purposes.

v)   **Social Security System -** Streamlining of the management configuration through the abolition of some management layers and merger of some related functions.

On the area of improving systems and procedures for faster service delivery and more client satisfaction, several initiatives were undertaken. They include:

i)   **Department of Public Works and Highways -** Gradual reduction in the actual design, construction, and maintenance activities by administration, with a strategic shift toward outsourcing such functions to the private sector, thereby enabling the department to focus on policy formulation, standards development, and contract supervision.

ii)   **Bureau of Fire Protection -** Redefinition of the role of the national headquarters to focus on policy development, standards setting, and rule formulation, allowing its field offices to handle its substantive functions.

iii)   **Bureau of Immigration, Land Transportation Franchising and Regulatory Board, and Presidential Management Staff -** Intensification of automation and computerization efforts through the strengthening or elevation of existing units providing ICT services, or establishment in their absence, to integrate ICT efforts in their operations for more efficiency.

In addition, through the Program, certain services were decentralized to the regional or field offices in order to bring services closer to the transacting public. They are:

i)   **Department of Labor and Employment -** Decentralization of line functions, such as accreditation of safety and health programs and safety practitioners, implementation of Poverty Free Zone Programs, and programs for sugar workers, and registration of public sector unions and federations, including resolution of their certification election cases.

ii)   **Department of Tourism -** Delegation of domestic tourism promotion.

iii)   **Housing and Land Use Regulatory Board -** Decentralization of regulatory services on housing and land use development.

The responsibility for maintaining certain local historical sites, which were previously managed by the National Historical Commission of the Philippines, a national agency, was devolved to the corresponding LGUs. Similarly, the National Irrigation Administration transferred to LGUs the operation and maintenance of secondary and tertiary irrigation canals.

As a result of the rationalization efforts, the government realized Personnel Services savings of about PHP4.273 billion (~USD73.04 million) at FY 2005 levels, or about PHP7.264 billion (~USD124.17 million) at FY 2012 levels. The savings were generated through the abolition of 22,471 permanent, 4,010 contractual, and 7,984 casual positions, which came to a total of 34,465 posts. Payments made for incentives and terminal leave benefits amounted to PHP6.621 billion (~USD113.18 million). Importantly, the savings generated were retained by the agencies to fund their priority programs and projects, including outsourcing of ICT services and certain administrative functions, such as janitorial, utility, messengerial, and security services.

Actors of the Program

The Presidential Committee on Effective Governance (PCEG), established under EO 165 to formulate an institutional strengthening and streamlining program for the Executive Branch, took the lead in crafting the Rationalization Program, including the preparation of all implementing rules and regulations. The PCEG was chaired by the Executive Secretary with the Secretary of the Department of Budget and Management serving as co-chair of the Committee. Members of the Committee included the heads of the following agencies: National Economic and Development Authority, CSC, Department of Finance, and Presidential Management Staff.

In the course of its work, the PCEG conducted consultation meetings with the public sector unions and agencies to get their inputs on the implementation of the Program before submitting the draft EO to the Office of the President. Following the issuance of the EO, the Committee held briefings on the mechanics of the Program to union members, officials, and employees of the government.

The DBM served as the Secretariat of the PCEG. As the agency responsible for undertaking continuing studies on organizational changes within government agencies, the DBM was responsible for reviewing and evaluating the submitted Rationalization Plans.

A SLIP Team was organized to help employees who may be affected by the Program's implementation. The SLIP was structured into three groups, namely: the Business Opportunities Group, the Job Facilitation Group, and the Investment Services Group.

Table 7.1 highlighted individual group function as well as the type of services provided by the relevant agencies.

TABLE 7.1

SLIP'S THREE GROUPS AND RELEVANT AGENCIES

Group	Purpose	Agency
Business Opportunities Group	Provide training and financial assistance, as necessary, to affected employees who intended to start a business of their own as well as to those who wanted to organize cooperatives	**Skills/Livelihood Training:** • Bureau of Small and Medium Enterprises Development, Department of Trade and Industry • Technical Education and Skills Development Authority • Technology Resource Center
		Cooperative Development: • Cooperative Development Authority
		Credit Assistance: • Land Bank of the Philippines • National Livelihood Support Fund • People's Credit and Finance Corporation • Quedan and Rural Credit Guarantee Corporation • Small Business Guarantee and Finance Corporation
Job Facilitation Group	Assist affected personnel who would like to seek employment in the private sector, whether local or overseas	• Bureau of Local Employment, Department of Labor and Employment • Philippine Overseas Employment Administration
Investment Services Group	Offer information and guidance on investment/ financial products and trust services	• Land Bank of Philippines • Development Bank of the Philippines • Bureau of the Treasury

For affected employees who preferred to remain in public service and transfer to another government agency, the CSC, as the central personnel agency of government, handled the placement mechanism. Of the 22,258 affected personnel, 974 opted to transfer to agencies needing additional personnel, such as hospitals managed by the Department of Health, schools supervised by the Department of Education, Bureau of Jail Management and Penology, Land Transportation Office, National Statistics Office (now Philippine Statistics Authority), and Philippine National Police.

Successes and Problems/Difficulties Encountered in Program Implementation

Successes in Program Implementation

At the national level, the implementation of the RP enabled the government to focus more clearly on its core functions. The identification of these priorities helped in the succeeding budget allocation efforts. It also contributed to the reduction, if not elimination, of redundancies, overlaps, and duplication of efforts between and among agencies. As a result, it was able to generate savings in operational costs, which were channeled to its priority programs. Further, the identification of unnecessary programs, projects, and activities allowed the government to avoid their continued funding.

The RP also paved the way for the shift to a results-based performance management system. The results of the implementation of the Program across various departments and agencies were used in succeeding budget allocation activities. This shift allowed for a better alignment of objectives with the budget, thereby improving performance and accountability.

At the department and agency levels, the Program gave them the opportunity to conduct a strategic review of their operations, organizational structure, staffing pattern, and manning mix and levels. This review enabled them to minimize, if not totally eliminate, programs, projects, and activities that

were no longer relevant or contribute to their overall effectiveness and efficiency. In line with the current organizational needs, the structures, staffing patterns, and manning mixes and levels were also updated accordingly.

Problems/Difficulties Encountered in Program Implementation

While the objectives of the Program can be said to have been achieved, some problems in implementation were faced along the way.

Prior to Plan Submission

Various departments and agencies requested extension in the submission of their Rationalization Plan. This is largely due to the consultative process required in plan preparation, which also contributed to the extended implementation of the Program, spanning more than eight years.

During Evaluation of the Rationalization Plan

The implementation of the Program encountered several administration challenges that impacted its timeline and effectiveness. Changes in the leadership within some departments and agencies, including turnover among the CMT members along the way, created disruptions. The appointment of new secretaries and members of the CMT caused another review of the Rationalization Plan, resulting in further delays to the submission process.

The bureaucratic setback was further compounded when some agencies withdrew their plans after evaluation, which resulted in wasted efforts. There were also cases of plan revisions being submitted after completion of the evaluation. Despite completion of the evaluation of the Rationalization Plan, some departments and agencies opted to withdraw or introduce revisions in the submitted plan.

Many of these delays stemmed from fundamental issues with plan compliance as numerous submissions failed to properly adhere to the provisions outlined in EO 366 and its implementing rules and regulations, requiring DBM to return them for revisions. This was particularly problematic when agencies overlooked or misinterpreted mandatory requirements specified in the EO, creating unnecessary cycles of review and revision.

Additional operational complexities further strained the implementation process. The absence of CMT in some agencies made coordination difficult while recurrent computational errors in Personnel Services costs undermined the integrity of submitted proposals. These challenges were exacerbated by the Program's prohibition on filling positions, which generated numerous exemption requests that overwhelmed DBM's capacity.

Before Plan Approval

There were lengthy and numerous consultation meetings with the CMTs of the agencies concerned to discuss DBM's recommendations before finalization and approval of their plans.

After Plan Approval

Despite the multiple consultation meetings undertaken before the finalization of the Rationalization Plan, requests for reconsideration or changes in the approved plans were still received.

Recommendations and Conclusion

Four essential elements were identified as crucial in the successful implementation of any reform initiative.

First is leadership or political will. The PCEG, which led the Program and was chaired by the Executive Secretary, gave a strong signal on its importance. The Department Secretary or the agency head, being designated to take the lead in the preparation of the Rationalization Plan stressed the seriousness of the effort. The early submission and approval of the Rationalization Plan, of the Office of the President, the Office of the Vice President, and CSC reinforced the message that the Program will be pursued.

Without the presence of a strong leadership in the design and implementation of the RP, the Program could have failed miserably.

Second is the importance of a Change Management Program that cannot be overemphasized. The consultations conducted with the public sector unions, agency officials, and employees, prior to the submission of the Executive Order to the Office of the President as well as the continuing information dissemination activities undertaken during its implementation, paved the way for a smoother execution of the Program. These consultation and information dissemination efforts also enabled a buy-in to the Program from a majority of the agency officials and employees. However, it was also observed that excessive consultation also had its negative effects as it unduly delayed the process. Therefore, consultations must follow a firm decision-making at an appropriate stage of the process.

Third is the aggressive and continuing provision of technical assistance to agencies in conducting a strategic review of their operations and organizational setup. This was crucial in enabling the CMTs to perform their responsibilities effectively. The DBM organized teams to handle specific departments, and they provided guidance to the CMTs throughout the process.

As any initiative can affect the status quo, especially a transformational program such as the RP, which could result in the displacement of people, ensuring the availability of safety nets is crucial. The RP gave priority to the welfare of employees who may be affected by providing an incentive mechanism, placement scheme, skills/livelihood, and investment options as well as a grievance mechanism.

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CHAPTER 8: SRI LANKA

REFORMING SRI LANKA'S PUBLIC SERVICE - LESSONS FROM DEVOLUTION, E-GOVERNANCE, AND ECONOMIC CRISIS

Abstract

Sri Lanka is a constitutional democracy with a governance structure deeply rooted in the commonwealth system. The public service, as a significant component of the Executive, is extensive in scope, numbers, and authority. Over the years, efforts have been made to improve bureaucratic efficiency through deconcentration, delegation, devolution, and privatization. Notable rightsizing and restructuring efforts in Sri Lankan history include: (i) the privatization of lossmaking state-owned enterprises (SOEs); (ii) the introduction of Divisional Secretariats as "One-Stop Shops" for the delivery of public services in localities; (iii) the establishment of Provincial Councils to devolve select functions to local governments; (iv) the consolidation of the main supporting services of the public sector; and (v) the introduction of e-Governance. In 2023, Sri Lanka's five-tiered public sector employed 15% of the nation's workforce and footed a LKR940 billion (~USD3.08 billion) salary bill.

Policy missteps that plunged Sri Lanka into the 2019 economic crisis have been attributed to bureaucratic inefficiency. The Sri Lankan government sector grew due to politically motivated decisions, such as the mass recruitment of the unemployed and mercurial policy decisions that alternated between downsizing and enlarging the public sector. There was a public outcry to reduce the size of the public service and the scope of the government.

This chapter discusses the need for an evidence-based rightsizing, rather than arbitrary downsizing, to improve bureaucratic efficiency in Sri Lanka, in light of the country's historical developments. The study finds that restructuring measures, which are firmly grounded in the national aspiration to strengthen and broaden the democratic structure of government and the democratic rights of the people, have generally resulted in reduced bureaucratic inefficiency. The success of the Divisional Secretariats stands as a prime example of this. The growing acceptance of e-Government initiatives is another example. In contrast, the provincial council system, a politically driven solution, has largely failed due to the absence of genuine political and bureaucratic will to strengthen the devolution. Based on recent developments, including the IMF Governance Diagnostic (2023), Public Expenditure Review Committee (2023), and SOE Reform Policy (2023), this study recommends the establishment of a clear policy framework that is aligned with national aspirations. These aspirations are entrenched in the "Directive Principles of State Policy and Fundamental Duties" Chapter of the Constitution, forming the main recommendation for government rightsizing and restructuring to improve bureaucratic efficiency in Sri Lanka. Given Sri Lanka's past failures to realize restructuring efforts, it is also recommended that a robust monitoring and evaluation framework be legalized to track the progress of rightsizing efforts. Within the ambit of these two recommendations, it is critical to implement the Public Expenditure Review Committee's suggestion to reduce budgetary allocations to national agencies working in devolved subject domains and ensure strict adherence to the SOE Reform Policy for transparent and accountable restructuring of SOE.

Introduction

This chapter discusses public sector rightsizing and restructuring in Sri Lanka in pursuit of bureaucratic efficiency. The state is committed to promoting the welfare of the people by securing and protecting a social order where justice governs all institutions, as articulated in Chapter VI of the Constitution. In its pursuit of such a social order, the Sri Lankan government strives to develop and enrich the nation through various government agencies.

The island nation, formerly a colony, has a multilayered and stratified governance structure, shaped by politically motivated policies and reforms that seek to reinvent the government in accordance with New Public Management (NPM) principles. Subsequent sections of this chapter explore public sector reforms in Sri Lanka, examining historical initiatives such as the establishment of Divisional Secretariats and Provincial Councils. More recent measures, including the adoption of e-Governance and the restructuring of SOEs are also discussed in-depth.

These discussions seek to identify key areas where rightsizing can effectively address bureaucratic inefficiencies, compounded by politically motivated expansions and inconsistent policy decisions. The sections also consider the various mechanisms available for rightsizing, drawing insights from recent developments, including the IMF Governance Diagnostic. Finally, this chapter provides evidence-based recommendations for rightsizing, emphasizing the need for a coherent policy framework that aligns with the national aspirations outlined in the Constitution. It also advocates for the establishment of robust monitoring and evaluation mechanisms to ensure the long-term success of these efforts.

Background and Overview

Governance Structure

Sri Lanka is an island nation that lies in the Indian Ocean, off the coast of India, with a population of 21.6 million. It is a unitary, free, sovereign, and independent state, established as a Democratic Socialist Republic (The Constitution, 1978). In Sri Lanka, the legislature, executive, and judiciary exercise the sovereignty of the people.

Politically, Sri Lanka's Constitution combines a presidential system, selectively borrowed from the Gaullist Constitution of France, with a system of proportional representation in Parliament (Ratnapala, 2015). The President is the head of the State as well as the head of the Cabinet of Ministers, who are appointed from among the 225 Members of the Parliament, and the Public Service. The Secretaries to the Cabinet Ministries and heads of departments are appointed and removed by the President and the Cabinet of Ministers, respectively, with a few exceptions. Sri Lanka's legislature, the Parliament, is the supreme lawmaking body and consists of 225 members elected under a modified system of proportional representation to serve a six-year term. Of these, 196 are elected from multimember constituencies while the remaining 29 seats are allocated based on the proportion of the national vote, and the seats are filled by nominees from political parties or independent groups (The Constitution, 1978). The judiciary exercises the judicial power of the people through a well-established court structure, with the Supreme Court serving as the highest court of appeal.

Administrative Structure

Decentralization efforts since independence have converted the Sri Lankan administrative system into a multilevel structure. These efforts have included attempts to deconcentrate, delegate, devolve, and privatize (Nellis et al., 1983; De Alwis, 2019). Yet the administrative structure remains strongly centralized, in spite of attempts to establish a quasi-federalist system through the Thirteenth Amendment to the Constitution and the Provincial Councils Act, No. 42 of 1987. Consequently, the Provincial Councils have become the second tier of the administrative structure in Sri Lanka. The prevailing multilevel governance system consists of five levels: national, provincial, district, divisional, and community (Ramasamy, 2020; De Alwis, 2019).

FIGURE 8.1

PROVINCE, DISTRICT, AND DS DIVISION BOUNDARIES OF SRI LANKA IN 2013
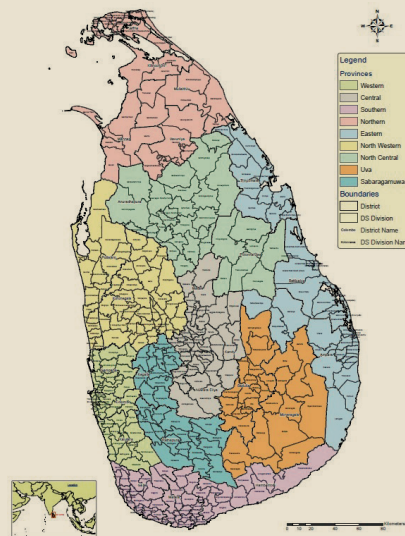
Source: Department of Census and Statistics, Sri Lanka.

FIGURE 8.2

ADMINISTRATIVE STRUCTURE IN SRI LANKA ACCORDING TO THE 1978 CONSTITUTION AND TRANSFER OF POWERS (DIVISIONAL SECRETARIES) ACT NO. 58 OF 1992
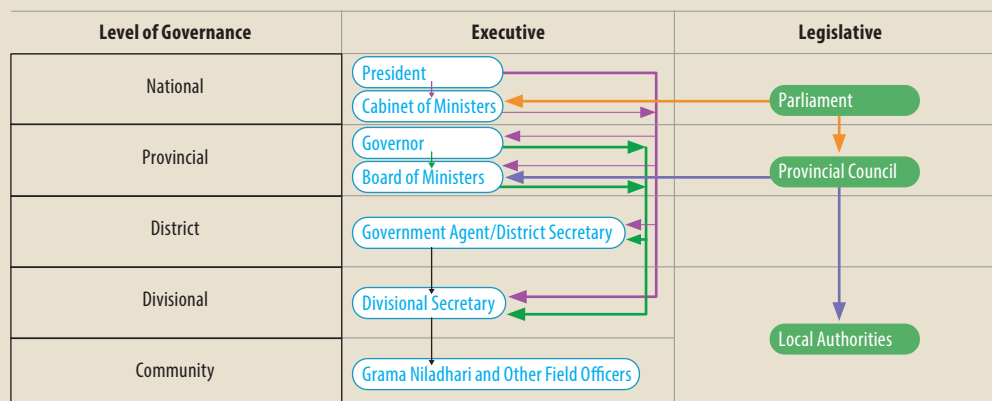
Source: Author.

However, these governance levels are not sequentially linked. The national and provincial structures are mutually exclusive, but operate simultaneously. The district, divisional, and community-level administrative structures are responsible for policy implementation for both the national and provincial governance levels, but they fall directly under the purview of the national government (specifically, the Cabinet Ministry with home affairs mandate). While the Chief Secretary to the Provincial Council, the Government Agent/District Secretary (GA), and the Divisional Secretary serve as the respective heads

of the provincial, district, and divisional administrative structures, a number of national agencies also maintain regional offices that are not directly controlled by these main administrative structures. Local authorities, which are responsible for providing services for the comfort, convenience, and well-being of the community within their respective areas, are under the mandate of the Provincial Council and operate as subordinate legislative and administrative entities at the community level.

This multilayered administrative structure, combined with the dominance of political authority in decision-making, has often been criticized for reducing bureaucratic efficiency. Therefore, restructuring efforts can be observed since independence; however, with an increasing intensity following the dilution of the GA's authority and the establishment of the Provincial Councils.

Rightsizing in the National Context

Since gaining independence in 1948, Sri Lanka has made several historical attempts to restructure and reform the public sector. The first wave of reforms sought to localize the colonial administrative structure. In 1951, the first attempt at improving bureaucratic efficiency was made based on the organization and methods (O&M) approach (Nadarajah, 1997). The O&M unit, established in the General Treasury, was tasked with examining the organizational and operational methods of government agencies and advising on improvements. However, the unit failed due to lack of political support and the absence of backing from senior Treasury bureaucrats (Nadarajah, 1997). Regional offices were created for several departments at the district level, a measure aimed at reducing bureaucratic inefficiency by establishing a clear communication chain for each department, from the district level to the national level. This also sought to remove the Government Agents from their role as an intermediary with delegated authority at the district level (Wijeweera, 1988). Another major rightsizing attempt occurred in 1963, when the Ceylon Civil Service was abolished and replaced with the Ceylon Administrative Service. The former was limited to the English-educated male graduates and represented the upper echelon of the public service. The reform was driven by the belief that the Ceylon Civil Service was socioeconomically unrepresentative. Similarly, the "village headman" was replaced in 1963 with *"Grama Sevaka"* (servant of the village)[1] (De Alwis, 2009). In 1966, a Standing Committee was appointed to examine the administrative setup and make recommendations for change in a renewed effort to improve bureaucratic efficiency and modernize administrative. However, this committee had "little achievement to its credit" (Nadarajah, 1997).

The next round of reforms aimed at decentralization but, ironically, diluted bureaucratic authority. In the 1970s, a separate ministry called the "Ministry of Public Administration" was established, separating the public sector management mandate from the Ministry of Finance, to restructure the public service. With the introduction of Divisional Development Councils in 1971, a public sector employment scheme emerged for unemployed graduates, who were recruited as "Divisional Development Assistants" solely based on their lack of employment. The decentralized capital budgetary system was introduced in 1974 to strengthen the decentralization of development administration. According to Oberst (as cited in De Alwis, 2009), this reform put the local Members of Parliament in the position of development administrator.

In the 1980s, when economic issues, including fiscal difficulties, called for radical changes, privatization was employed as a restructuring initiative. The rationale behind this was to reduce government expenditure and increase revenue from government assets. Subsequently, the Public Corporations Act No. 22 (1987) and the Public Company Act No. 23 (1987) were enacted, and the Public Enterprises Division was formed within the Ministry of Finance. Since most SOEs were overstaffed when privatization was introduced, a considerable number of employees lost their jobs while a few saw their cadre sizes increased (Knight-John & Athukorala, 2005).

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[1]   Later in the 1990s, this designation was again changed into *"Grama Seva Niladari"*, owing to high agitation of the Trade Union. Again in the recent past, this post was redesignated *"Grama Niladari"* on the same agitation.

The Administrative Reform Committee (ARC) was established in 1986 to introduce administrative reforms and restructuring to achieve the bureaucratic efficiency necessary to support economic liberalization (Wanasinghe, 1994). The ARC report identified the bloated size of the administrative system as a major issue. The UNDP mission, also invited to rightsize the public sector, recognized the same issue. Both reports recommended the establishment of dedicated units to oversee the proposed reforms. Two units were formed accordingly, and both failed in the implementation of their respective recommendations, which included: (i) adapting strategic policy formulation and policy coordination to achieve policy outcomes more effectively; (ii) adopting a result-oriented philosophy as the guiding management principle; (iii) separating policy-making, service delivery, and regulatory functions of government; (iv) realigning responsibilities to support the government goals more effectively; (v) training staff to respond to the new environment and realize their potential; and (vi) redeploying surplus staff (Root et al., cited in Alwis, 2009). While these units succeeded in some of the recommendations, such as reducing the number of ministries and streamlining their tasks, these reforms were short-lived.

In 1987, the establishment of Provincial Councils and Divisional Secretariats (DS) were formed, adding two more tiers to the existing two-tiered governance system. Provincial Councils were established as a political solution to the acute ethnic conflicts of the time. While this could be considered devolution of powers, as it added another level of administration[2] and was largely driven by external factors, including the regional hegemony from India. The Provincial Councils system failed from the start (De Alwis, 2009) and is often referred to as a "white elephant" (Commonwealth Local Government Forum, 2019). In contrast, the DS system, established in 1987, was a remarkable success. It furthered decentralization without challenging the district-based governance system. The DS functions under the direct supervision of the District Secretariat and the purview of the Ministry of Home Affairs. The Transfer of Powers (Divisional Secretaries) Act No. 58 of 1992 empowered the DS to function as the fundamental governance unit in Sri Lanka.

The next restructuring attempt aimed at improving bureaucratic efficiency was made in 1998 with the introduction of the performance appraisal system. This system sought to address the criticism that the public sector was too focused on inputs and following rigidly to rules, regulations, and processes rather than focusing on outputs or outcomes (Hughes, 1994). The other motivation for this reform was to link performance to employee promotions, salary increments, and training (De Alwis, 2009).

The formulation of the Public Management Assistants' Service (PMAS), the adoption of e-Government strategy, and the introduction of the Citizens Charter (CC) were the main administrative reform attempts in the 2000s. In 2004, in a bid to rightsize and reform the public service, five main supporting services[3] were amalgamated to form the Public Management Assistants' Service (De Alwis, 2009). The CC was launched in 2008 with a view of developing a more transparent, citizen-oriented administrative culture with a clear focus of enhancing bureaucratic efficiency. The CC is a written commitment made by a public institution to deliver specific services to citizens and creates a strong bridge between bureaucrats and the general public, which is essential for moving forward with the New Public Management (NPM) objectives of efficiency and customer-centric service models (Jayasundera, 2021).

The E-Sri Lanka: an ICT Development Roadmap, introduced in 2002, recognized e-Government as a critical area for the first time. It outlined the need to establish an institutional framework for planning and implementing e-Government in Sri Lanka (Information Communication Technology Agency of Sri Lanka, 2009b). The roadmap seeks to "transform the way government thinks and work" in pursuit of bureaucratic efficiency. In 2003, the Information and Communication Technology Agency (ICTA) was formed by the Information and Communication Technology Act No. 27 of 2003. Subsequently, an

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[2]   Refer to Figure 8.2 for the interconnection between levels of administration in Sri Lanka.

[3]   The amalgamated services are general clerical service, shroff service, bookkeepers service, storekeeper service, and typist and stenographer service.

e-Government policy titled "Policy and Procedures for ICT Usage in Government" was introduced in 2009, with a vision "to adopt ICT in all its aspects to make government more efficient and effective, improve access to government services, and create a more citizen centric government".

ICTA has invested in diverse e-Government projects to increase the efficiency and effectiveness in governance and restructure the public service delivery and management functions. The Lanka Government Network 2.0 and Lanka Government Cloud service platform, implemented by the ICTA, have provided government agencies with the necessary ICT infrastructure to improve service delivery. e-Government efforts have continued in the following decades to improve access to public services.

Rightsizing attempts in pursuing bureaucratic efficiency have taken center stage in the recent times. These include SOE restructuring, reassignment of excess cadre, and efforts to systematically reduce the duplication of work at different levels of government. These efforts are discussed further in the section on the supply side of rightsizing and restructuring.

Demand Side of Rightsizing and Restructuring

The Call for Rightsizing

The Sri Lankan public sector consists of approximately 1,354,000 public servants, accounting for about 17% of the overall workforce in the country (Central Bank of Sri Lanka, 2023). This implies that one in every 16 citizens is a public employee in Sri Lanka. This bloated size of the public service has created a sizable salary bill. For example, in 2023, nearly 15% of the government's total recurrent expenditure was spent on salaries for government employees (Ministry of Finance, 2023). Despite its size and financial burden, governance performance, as indicated by various indices published by organizations, such as the UNDP, Transparency International, and the World Bank, shows that Sri Lanka lags behind in many critical areas, as illustrated in Table 8.1.

TABLE 8.1

SCORES IN SELECTED INDICES IN 2018–22

Index	2018	2019	2020	2021	2022
Human Development Index (score)	0.774	0.775	0.777	0.783	0.78
Corruption Perception Index (score)	38	38	38	37	36
Worldwide Governance Indicators (WGI) Government Effectiveness (score)	43.33	47.14	50.48	49.05	35.85

Source: UN; Transparency International; UNDP.

In addition to poor performance in international indices, citizen satisfaction with public sector service delivery remains low, as denoted in Table 8.2. While only 25% of citizens believe that government officials are generally incompetent, 48% perceive public service delivery to be inefficient. Furthermore, 47% of citizens opine that public service delivery do not reach those who need them without difficulty. More than half of the respondents (over 50%) believe that public institutions waste public money. Similarly, 54% of citizens believe that public institutions fail to adequately address grievances from the public. The IMF Governance Diagnostic Assessment (2023) notes that a confluence of shocks and policy missteps has led to a severe economic and governance crisis in Sri Lanka, leaving the country with ongoing governance challenges.

It is clear that the size, structure, and performance of the Sri Lankan public sector are currently unsatisfactory. Recently, Senior Presidential Advisor Duminda Hulangamuwa stated that the country would need to downsize its public sector workforce from its current 1.3 million employees to 750,000 employees (Daily Mirror, 2024). This suggests a strong demand for rightsizing and restructuring the

public sector from citizens, government, and international actors. Such governance reforms can boost growth by enhancing public investment efficiency, improving revenue mobilization, and reducing distortions faced by firms (IMF, 2024).

TABLE 8.2

PUBLIC ASSESSMENT OF THE PUBLIC SECTOR

Assessment Statement	Percentage Response by the Public (25,040 households)					
	Strongly agree	Agree	Neutral	Disagree	Strongly disagree	No response
Government officials are generally competent.	5%	34%	30%	17%	8%	6%
Public service delivery is efficient.	4%	19%	24%	35%	13%	5%
Public service delivery reaches those who need it without a problem.	3%	19%	26%	35%	12%	5%
Public institutions waste a lot of public money.	19%	38%	14%	16%	6%	7%
Public institutions appropriately deal with legitimate grievances from citizens.	3%	15%	22%	38%	16%	6%

Source: Centre for Poverty Alleviation.

The following are the main causes of bureaucratic inefficiency in Sri Lanka, which need to be addressed through rightsizing and restructuring.

Provincial Councils: Devolution or Duplication?

Successive governments have attempted to decentralize the administration since Sri Lanka's independence. Initially, the government sought to achieve decentralization through the district-based existing administrative structure. Development functions were added to the role of the GA[4], who was originally tasked with revenue collection and coordination of government functions (De Alwis, 2019). In the same pursuit, various initiatives were introduced, including Divisional Development Councils (1971), decentralized capital budget (1974), district minister system (1978), and District Development Councils (1981). These decentralization efforts failed, with the most significant factor identified for the failure of the District Development Councils is the inadequacy of financial provisions (Bagchi, 1988).

The Provincial Council (PC) system emerged as a political solution to the ongoing ethnic conflicts[5] in the North and East of the country, and it was enacted to affect devolution of powers within a unitary State (Marasinghe, 2018). While the aforementioned attempts were locally motivated and developed, the PC system was heavily influenced by India, the South Asian hegemon. The PC system is significant because it introduced an additional tier to the governance structure in Sri Lanka, whereas previous attempts utilized the existing district-based governance. The main impetus behind the establishment of the PCs was the devolution of political and administrative authority to subnational level, particularly to address the Tamil's interests in the North and East (De Alwis, 2019). As discussed earlier, the Thirteenth Amendment to the Constitution and the Provincial Councils Act, No. 42 of 1987 created the PC system in 1987. Article 154A (1) of the Sri Lankan Constitution provides that a PC shall be established for each of the nine provinces specified in the Eighth Schedule[6]. Accordingly, in 1988, eight PCs were established, with the North and East merged into one administrative unit. However, in 1990, the North-East Provincial Council (NEPC) was dissolved, and administration was taken over by

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[4]   The Government Agent (GA) is the administrative head of the district appointed by the central government. Following the Transfer of Powers (Divisional Secretaries) Act No. 58 of 1992, the GA is referred to as "Government Agent/ District Secretary".

[5]   The Liberation Tigers of Tamil Eelam (LTTE) waged an intermittent insurgency from 1983 to 2009 against Sri Lankan government to create an independent Tamil state called Tamil Eelam in the north-east of the island.

[6]   Western, North Western, Uva, Sabaragamuwa, Central, Eastern, Southern, North Central, and Northern provinces.

the government due to the failure of the administrative machinery amid ethnic conflicts. Following a ruling of the Supreme Court in October 2006 *(North-East Demerger Case)*, the NEPC was demerged in 2009, and now there are nine PCs in Sri Lanka.

The devolution of powers and functions to the PCs in Sri Lanka is largely based on the powers and functions of the states in India (De Alwis, 2019; Marasinghe, 2018). A PC is an autonomous body established by the Chapter XVII A of the Constitution (1978), and as such, it does not fall under the purview of the national government. The PC undertakes activities as provided in Lists I and III of the Ninth Schedule, which were previously undertaken by national-level government agencies. The Ninth Schedule contains three lists: List I - Provincial Council List; List II - Reserved List; and List III - Concurrent List. Subjects in the PC List are considered fully devolved to the PCs subject to national policies on each such subject, which are reserved for the Centre. PCs can pass statutes on these subjects that is applicable within the province (The Constitution, 1978). The Reserved List enumerates the subjects over which the PCs have no authority, and they cannot pass any statutes related to these subjects. The Concurrent List includes subjects on which the PCs have authority, subject to the concurrence of Parliament. Either Parliament or a PC can pass legislations on a subject in the Concurrent List, but both must consult one another in such cases.

With this clear demarcation of scope, the PCs are expected to be autonomous within their respective provincial territories. The Supreme Court of Sri Lanka has also noted that a subject within the scope of the PC List is considered to be solely under the authority of the respective PC[7] *(Madduma Bandara v. Assistant Commissioner of Agrarian Services, 2003).* In practice, however, this autonomy is often undermined due to three reasons:

i)   **National government agencies retaining authority over subjects in the PC List -** For example, land is listed as item 18 of the PC List. Land-related matters, including land tenure, land transfer, alienation, use, settlement, and improvement, to the extent set out in Appendix II (The Constitution, 1978). However, according to item 3 of Appendix II, national land policy is to be determined by a National Land Commission, which includes representatives of all PCs. In practice, however, land remains under the national government's authority, with the PC's recommendation being optional. Despite this provision, the National Land Commission has yet to be established 46 years after the enactment of the Second Republican Constitution.

ii) **Necessity to conform to national policies -** PCs are required to pass and implement statutes in conformance with national policies, which restricts their ability to exercise authority within their provinces. This is highlighted in the case of *Kamalawathie & others v. Provincial Public Service Commission (2001), North Western Province case,* when Mark Fernando J. noted that "while powers in respect to education have been devolved to PCs, those powers must be exercised in conformity with national policy".

iii) **Existence of national government agencies with mandates in subjects under the PC List -** For instance, Probation and Child Care Services are listed as item 7:1 in the PC list, and each province has a provincial department responsible for these services. Nevertheless, a Department of Probation and Child Care Services exists under the national government, with a budget allocation of LKR69,623,721 (~USD228,274) budget in 2022.

This duplication of functions can be observed in many areas, as shown in Table 8.4. The colored cells indicate which level of governance holds constitutional authority and which level exercises practical authority in selected areas. These practices have led to a duplication of work rather than devolution of power, adding an additional layer of bureaucracy at the expense of the taxpayers.

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7   The Supreme Court had to decide if the Provincial High Court had jurisdiction with reference to agrarian services, which is under the purview of the Provincial Council List.

FIGURE 8.3

SUMMARY OF SUBJECT AUTHORITY IN SELECTED SUBJECTS IN SRI LANKA

	National		Provincial	
	Constitutional	Application	Constitutional	Application
Administration				
Defense and national security	✓	✓		
Foreign affairs	✓	✓		
Immigration, emigration, and citizenship	✓	✓		
Police (other than special units) and public order		✓	✓	
Local government	✓		✓	✓
Land		✓	✓	
Revenue collection	✓	✓	✓	✓
Licensing	✓	✓	✓	✓
Education				
Preschool		✓	✓	✓
Education	✓	✓	✓	✓
Universities and tertiary education	✓	✓		
Utilities				
Roads	✓	✓	✓	✓
Transport	✓	✓	✓	✓
Postal and telecommunication	✓	✓		
Electronic media	✓	✓		
Print media	✓	✓	✓	✓
Welfare				
Health	✓	✓	✓	✓
Housing and construction	✓	✓	✓	✓
Social services	✓	✓	✓	✓
Probation and child care		✓	✓	✓
Relief for vulnerable groups		✓	✓	✓
Relief for disaster affected	✓	✓	✓	
Rural development	✓		✓	✓
Trade				
Markets		✓	✓	✓
Cooperatives	✓	✓	✓	✓
Foreign trade	✓	✓		
Trade and commerce	✓	✓	✓	✓
Food safety				
Agriculture	✓	✓	✓	✓
Animal husbandry and fisheries	✓	✓	✓	✓
Food supply	✓	✓	✓	✓
Environment				
Mines and mineral development	✓	✓	✓	✓
Environmental protection	✓	✓	✓	✓
Irrigation	✓	✓	✓	✓
Economic sectors				
Tourism	✓	✓	✓	✓
Industries	✓	✓	✓	✓

Source: Author.

The PCs, as the second tier of governance in Sri Lanka[8], have added a considerable burden to state coffers, as they depend on the central government for over 80% of their financing (South Asia Region Financial Management Unit, 2003). Given the higher recurrent expenditure compared to capital expenditure, the functionality of the PCs remains questionable. Figure 8.4 illustrates that personal emoluments of the PCs amount nearly 77% of the total expenditure. In 2017, the personal emoluments of PCs were over 65% (De Alwis, 2019). In 2019, the revenue generated by the PCs covered only 30% of their salary bill. The capital expenditure is a mere fraction of the recurrent expenditure. Therefore, ensuring true devolution, as opposed to duplication, is a crucial requirement in rightsizing and restructuring of the Sri Lankan public sector.

FIGURE 8.4

PROVINCIAL REVENUE, RECURRENT EXPENDITURE, AND CAPITAL EXPENDITURE (LKR'MILLION) IN 2019

*Actual Devolved Revenue Collection + Actual Revenue Transfers
**Actual expenditure up to December 2019
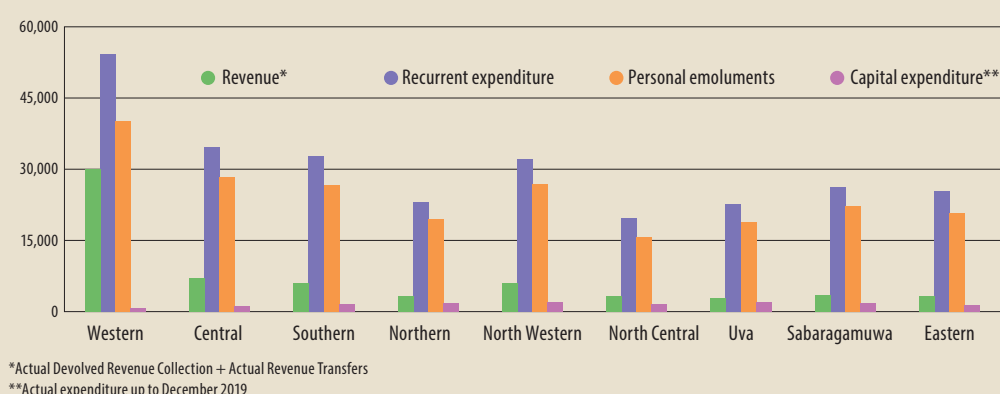
Source: Finance Commission of Sri Lanka.

The Lossmakers: State-owned Enterprises (SOEs)

SOEs in Sri Lanka encompasses statutory bodies, regulatory agencies, promotional institutions, educational institutions, public corporations, and limited companies. Any government agency that does not fall under the category of a ministry or a department is classified as a SOE by the Ministry of Finance. The majority of the SOEs are governed by the "Administer Part II" of the Finance Act, No. 38 of 1971 and the Companies Act, No. 07 of 2007 (Department of Public Enterprises, n.d.).

The development of public sector enterprises in Sri Lanka dates back to the Second World War (1939–45), when several SOEs were set up to provide essential goods whose supply had been curtailed during the war (Central Bank of Sri Lanka, 2021). With the rise of socialist trends in the 1950–70 period, the government began nationalization of private ventures while simultaneously forming new SOEs. The two key pieces of legislation that facilitated this expansion were: (i) the Government Sponsored Corporations Act No. 19 of 1955, which sought to take over and carry out existing industrial undertakings; and (ii) State Industrial Corporations Act No. 49 of 1957, which sought to empower the government to set up and carry out any industrial activity. The inward-oriented development strategy of 1960s ensured that import substitution industrialization was introduced through SOEs.

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8   Refer to Figure 8.3.

By the mid-1970s, major economic and social activities, including banking, plantations, large-scale industries, transport, insurance, telecommunications, postal services, ports, electricity, the import and distribution of petroleum, roads, health, and education, were either public sector monopolies or largely undertaken by public enterprises (Central Bank of Sri Lanka, 2021; Warnapala, 2010). By the mid-1980s, the number of SOEs had grown to over 280, up from just 14 in 1962. By this point, SOEs had become a growing burden on the state due to inefficiencies arising from a multitude of reasons, including poor financial performance, poor quality of goods and services, politically driven recruitment, and an inability to make necessary investments. This led to the privatization policy in 1988. The divestiture program commenced in 1989, and by mid-1994, 43 industrial enterprises and 92 bus depots had been privatized (Salih, 2000). By December 2004, in addition to 92 bus depots, approximately 98 public enterprises had undergone privatization (De Alwis, 2009). In the subsequent three decades, government policy alternated between privatization and nationalization.

Subpar performance is a common attribute of SOEs. Sri Lanka currently reports a total of 527 SOEs (Ladduwahetti, 2024), with 287 monitored by the Department of Public Enterprises (PED) while the rest is under the purview of the Department of National Budget (Department of Public Enterprises, 2024). These SOEs operate across 33 economic sectors and employ 250,000, a staggering 6% of total wage workforce (The Sri Lanka 2023 State-Owned Enterprise Reform Policy, 2023).

According to the PED, the 55 largest SOEs delivered a net Return on Assets (ROA) of only 0.64% in 2017. Total losses of SOEs in 2019 were greater than the national expenditures on education and health combined. Figure 8.5 illustrates the underperformance in four SOEs categorized as "strategically important". Reports from the Committee on Public Enterprises (COPE) and the Auditor General have highlighted repeated instances of fraud, mismanagement, corruption, and negligence (Advocata Institute, 2019). Financial reporting is often late and noncompliance is common. For example, Sri Lanka Rupavahini Corporation (the national television network of Sri Lanka) has not published annual reports since 2020, and the Ceylon Electricity Board has yet to publish the 2021 annual report (Ministry of Finance, 2024). Only one in 10 SOEs has made their financial information public, raising concerns about transparency (Rafi, 2022).

The weaknesses outlined above stem from three main issues: agency costs, politically motivated recruitment, and unchecked corruption. High agency costs, due to excessive payments to all or part of the SOE employees that contradict government directives, represent another significant weakness in this enterprises. For example, The Employees' Trust Fund Board paid incentives amounting to LKR74.8 million (~USD245,245) and bonuses amounting to LKR44.5 million (~USD145,902), contrary to the treasury circulars (Committee on Public Enterprises, 2014). Labor costs in Sri Lankan SOEs are around 70% higher than those of private firms (Rafi, 2022). Politically motivated recruitment, which leads to overstaffing and the appointment of unqualified officials, is another factor contributing to the inefficiency of SOEs. For instance, Sri Lanka Telecom had a workforce of nearly 8,000 in 2014, although the approved cadre was about 6,000 (Committee on Public Enterprises, 2014).

In 2022, then Minister of Power Kanchana Wijesekera stated that the Ceylon Electricity Board (CEB) employed 26,000 people, whereas the actual cadre requirement was 5,000. Most recruitment takes place without the approval of the Ministry of Finance. Rampant corruption is another significant structural weakness of SOEs. For example, a special investigation by the Auditor General found numerous weaknesses in procurement processes at Lanka Coal Company (Pvt.) Ltd., a SOE incorporated as a subsidiary of the Ceylon Electricity Board responsible for purchasing coal, resulting in an estimated loss of LKR4 billion (~USD13.11 million) between 2009 and 2016 (Advocata Institute, 2019).

FIGURE 8.5

TOTAL LOSSES, TOTAL PROFITS, AND NET LOSSES OF SELECTED SOES BETWEEN 2006–17
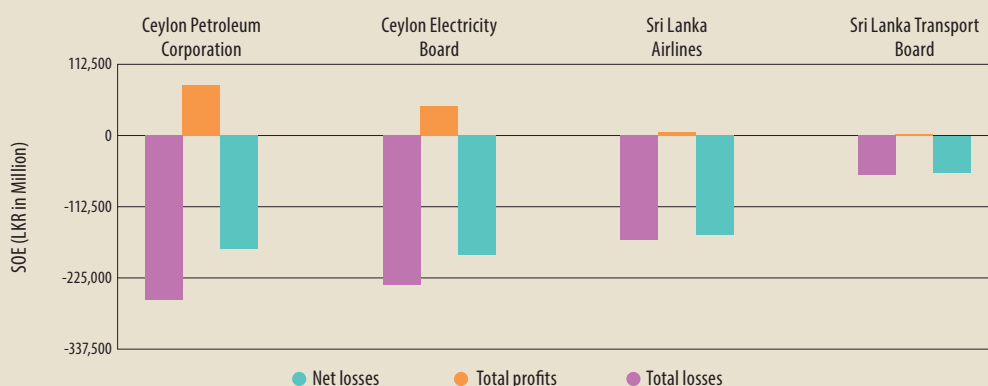
Source: Advocata Institute.

Additionally, SOEs cause costly bureaucratic inefficiency due to the duplication of mandate. For example, the Urban Settlement Development Authority, established by the Urban Settlement Development Authority Act, No. 36 of 2008, has a mandate that overlaps with the Urban Development Authority, established by the Urban Development Authority Law, No. 41 of 1978. Another instance is the National Equipment and Machinery Organization (NEMO), which was brought under the State Engineering Corporation of Sri Lanka (SEC) in 2011 but was made an independent entity in 2016. This phenomenon of overlapping or nearly identical mandates among SOEs leads to the multiplication of recurrent expenditures, including personal emoluments while the accountability of entities within their scope is halved. Implementing the SOE Reform Policy to optimize their productivity is one of the 16 priority recommendations of the IMF Governance Diagnostic Assessment.

Graduate Employment Schemes: A Cause for Overstaffing and Duplication of Work

It is commonly accepted that students pursuing undergraduate programs in social science, humanities, and the arts in Sri Lanka are less employable due to the lack of professional training. Ariyawansa (2008) concurs with the observation, noting that the output of arts stream graduates exceeds the demand in the job market. Out of the 24,565 graduates in 2019, 11,558 were arts stream graduates (University Grants Commission, 2020). Historically, Sri Lankan arts graduates have faced high unemployment rates, with job opportunities for them, particularly in social sciences and liberal arts begun to dwindle since the late 1960s (Samaranayake, 2016). Samaranayake (2016) cites Seers (1971) that two-thirds of arts graduates were unemployed in the early 1970s. Many of the graduates, upon completing their degrees, receive a certificate that does not sufficiently help them secure suitable employments (Ariyawansa, 2008). However, the notion that only arts graduates face unemployment is incorrect and irrelevant today. Ariyawansa (2008), quoting Wickramarachchi (2008), observes that graduates in Management and Commerce also face unemployment. Nearly half of the unemployed graduate population in 2019 pursued disciplines other than the Arts stream (Department of Census and Statistics, 2020).

As illustrated above, graduate unemployment is not new to Sri Lanka; it has existed since at least the 1960s (Samaranayake, 2016; Weligamage & Siengthai, 2003). In response, the Graduate Employment Bureau was established, and graduate placement schemes were launched in 1969. In 1971, a group of unemployed graduates were recruited as "Divisional Development Assistants". The job bank system, introduced in 1977, was met with youth dissatisfaction due to political bias. Under this system, all public institutions were required to recruit suitable candidates registered with the job bank for their

vacancies. A political authority was appointed for each district to oversee this process, and it was stipulated that a person seeking a job had to obtain a letter of recommendation from this political authority (Samaranayake, 2016).

In 1990, the government launched the "Unemployed Graduate Employment Scheme" (UGES), where graduates were placed in the private sector for training, however, with no assurance of permanent employment. Following the 1994 General Election, the government provided permanent employment in the public sector to the majority of these unemployed graduates under the "Graduate Employment Training Scheme" (GETS). In 1997 "Tharuna Aruna" (Dawn for Youth) program was launched as a key project to assist unemployed graduates to finding jobs and improving their practical skills through placements in the private sector (Samaranayake, 2016; Weligamage & Siengthai, 2003).

Providing state jobs and pensions to unemployed graduates was one of the several key economic strategies promoted by a fiscal-counter revolution around 2002 by Sri Lanka's *Janatha Vimukthi Peramuna* (a political party). The policy became a mainstay of election manifestoes of all political parties. According to the National Human Resources Development Council (2013), in 2004, about 24,000 graduates had been given permanent employment in the public sector, and by 2012, 51,420 graduates had been appointed to permanent employment in the state sector as development officers.

In 2017, the then regime provided public sector employment for over 6,000 unemployed graduates while the subsequent regime made a policy decision to employ 65,000 unemployed graduates in the state sector in 2020. The newly appointed individuals were designated as "Development Officers" and assigned to various government agencies without any specific departmental distinction (Bopagamage & Bopagamage, 2024). It should be noted that all these recruitments were made in excess, as the unemployed graduates were not recruited to fill any existing vacancy. In addition to these main graduate employment schemes, unemployed graduates have also been recruited into specific departments of the public sector without preexisting vacancies. For instance, in 1998, 275 unemployed graduates were recruited as "Child Right Promotion Officers", creating a previously nonexistent cadre in the Department of Probation and Child Care Services. Similarly, "Data Entry Operators/Coding Clerks" were recruited on a casual basis for various government agencies between 2000 and 2010 and were subsequently absorbed into the Sri Lanka Information and Communication Technology Service *(Kalu Arachchige Amila Duminda & others v. Secretary, Ministry of Public Administration and Home Affairs, 2012).*

These recruitment waves were often not aligned with actual administrative needs but were rather influenced by the political landscape and the need to satisfy electoral promises. In addition to unjustified enlargement of the public sector, the employment schemes have created several other structural issues within the public sector: the discontinuation of department-specific technical services, an imbalance between cadre availability and vacancies, and duplication of duties at lower administrative levels.

Moreover, technical services that were specific to a ministry or department to which graduates were recruited on a competitive basis were made redundant due to the graduate employment schemes. This occurred for two main reasons: first, the administrative authorities temporarily halted recruitment due to the already large number of graduates employed; and second, newly recruited unemployed graduates, despite often lacking the necessary academic or professional qualifications for technical roles, expected to be placed in these positions and therefore opposed direct recruitment into these services. For instance, the "Industry Inspector Service", a departmental service under the Ministry of Industries, was ended in November 2024 under these circumstances.

With each graduate employment scheme, public sector institutions are required to geographically expand their cadre based on the preferences of new recruits, rather than existing vacancies, as these appointments are politically motivated and typically occur around election periods. The burden of these appointments is borne by the Divisional Secretaries (DSs), as most recruits prefer appointments in their hometowns. This preference is often due to personal and social factors, such as proximity to family and familiarity with the local community. As a result, this has distorted the public sector,

leading to imbalances where some localities and departments have significant vacancies while others have a cadre that exceeds the approved numbers.

Additionally, a duplication of duties among field officers can be observed as a result of these graduate employment schemes. Job roles were created to ensure that new recruits are placed in preferred localities to fulfill electoral promises. For each *Grama Niladhari* division, an Economic Development Officer (EDO), recruited under the graduate employment schemes, is appointed. The role of the EDO is coordinating state-funded development projects, which was part of the *Grama Niladhari's* duties before such appointments were made. Another example is the duplication of roles within Divisional Secretariat, where there are multiple officers with near-identical scopes. Expanding further on this example are three separate officers - the Early Childhood Development Officer, Child Rights Promotion Officer (or Assistant), and Child Rights Protection Officer - who are all dedicated to child welfare. Any one of these officers, or the Women Development Officer could be included in the DS's committee to review the family background report for migrant women workers, as outlined in item 17 of the Ministry of Foreign Employment circular no. MFE/RAD/10/22 dated 16 January 2017, given that their roles and responsibilities overlap. Similarly, the Enterprise Promotion Officer, Vidatha Development Officer, and Small Enterprise Development (SED) Officer assigned to a DS work with the same mandate, which is developing grassroots-level entrepreneurship (National Enterprise Development Authority, n.d.; Small Enterprise Development Division, n.d.; Vidatha Unit, n.d.).

Supply Side of Rightsizing and Restructuring: Drivers and Initiatives

Since gaining independence in 1948, Sri Lanka has undertaken numerous public sector reform initiatives aimed at enhancing bureaucratic efficiency, including the establishment of various administrative bodies and decentralization efforts. Despite these efforts, many reforms have failed due to a lack of political support, ineffective implementation, and resistance from the existing bureaucratic structures.

Sri Lanka is at a crucial juncture today. Years of economic mismanagement, weak governance, poor policy decisions, and the impacts of external shocks, such as the COVID-19 pandemic and the Russian invasion of Ukraine, have plunged the country into its worst-ever crisis in 2022 (Raiser, 2023). However, this also forced Sri Lanka to drive rightsizing and restructuring initiatives to transform governance, with the goal of fostering economic revival and building future resilience. The IMF (2023) also has similarly emphasized that governance reforms are a central pillar of the Extended Fund Facility support program. It is reasonable to infer that due to the critical nature of the current circumstances, these initiatives will likely sustain, irrespective of regime changes.

Eliminating Duplication of Provincial Subjects

As discussed in "Rightsizing in the National Context," additional layers have been added into the governance structure to bring the state mechanism closer to the citizens. The establishment of DSs and PCs introduced two new layers to the governance framework. The PCs were established to devolve power to the bureaucracy while the DSs bring government services to the locality. However, the resulting four-layer governance structure is not hierarchical but interlaced, thus creating confusion. In particular, the disconnect between the PCs and DSs has been highlighted, which undermines the importance of PCs in governance. The relevance of PCs has become arguable in light of the repeated delays in holding PC elections in 2019 and 2024.

In addition, the duplication of work, job roles, and duties at national, provincial, district, and DS levels further complicates the multilayer governance structure, making it necessary to be revisited. De Alwis (2019) observes that for greater economic and societal outcomes in Sri Lanka, it is imperative to have fewer layers in the administrative structure in order to make them cost-effective. However, as the PCs are a political solution rather than an administrative reform, the possibility of eliminating the PCs is impractical.

The Public Expenditure Review Committee for the Ministry of Public Administration, Home Affairs, Provincial Councils and Local Government (2023) has recommended to "avoid allocation of funds to the National Ministries for devolved subjects" as a measure to reduce public expenditure. By allocating sufficient provisions to the PCs for devolved subjects while not assigning and providing budgetary provisions for relevant national ministries and national-level departments for these subjects can eliminate the duplication of work at the national level. The Committee has further recommended to allocate provisions for relevant foreign-funded projects of devolved subjects directly to the PCs in the budget estimates. Ministries and departments at the central level should be restricted to the reserved and concurrent subjects. National ministries with mandates, including subjects in the Concurrent List, are required to provide allocations to the PCs for such subjects (Public Expenditure Review Committees, 2023). These recommendations are strong drivers for rightsizing the duplication of provincial subjects at the national level.

Reforming SOEs

Many SOEs in Sri Lanka enjoy monopoly or dominant positions in the markets in which they operate. For example, the Ceylon Petroleum Corporation, National Water Supply and Drainage Board, Ceylon Electricity Board, and Lanka Electricity Company (Pvt.) Ltd. hold monopolies within their respective industry sectors. Meanwhile, Litro Gas Lanka is one of the only two Liquefied Petroleum Gas (LPG) companies in Sri Lanka and controls 85% of the country's gas market. Out of the 33 sectors in which SOEs operate, only 16 sectors feature direct competition between SOEs and the private sector (The Sri Lanka 2023 State-Owned Enterprise Reform Policy, 2023). As discussed earlier in "The Lossmakers: SOEs," many attempts have been made over the decades to restructure and rightsize SOEs, but these efforts have not yielded lasting results. Privatization, nationalization, and private-public partnerships have been the main strategies employed.

There has been a renewed interest in restructuring SOEs in the aftermath of the economic crisis, primarily due to the heavy fiscal burden they create. The IMF Governance Diagnostic Assessment (2023) and the Sri Lanka 2023 State-Owned Enterprise Reform Policy (2023) are key drivers of the ongoing SOE restructuring process. The SOE Reform Policy is based on nine principles:

i)   Commercial SOEs shall be divested as a norm.

ii)   The State shall hold shares in commercial SOEs only through a holding company (HoCo).

iii)   All commercial SOEs will be under the purview of the Ministry of Finance, which will delegate responsibility to the HoCo.

iv)   Commercial SOEs will be registered under the Companies Act.

v)   Commercial SOEs shall adhere to the tenets of Corporate Good Governance, including meeting the listing requirements of the Colombo Stock Exchange.

vi)   Commercial SOEs will compete on a level playing field with market competitors.

vii)   Dependence of SOEs on state-assisted borrowing will cease after a set period.

viii)   No SOE will hold both regulatory and commercial functions simultaneously.

ix)   The Treasury will finance the costs of SOEs providing obligatory public services.

The SOE Restructuring Unit (SOERU), established under the Ministry of Finance, plays a pivotal role in this restructuring effort and spearheads the ongoing transformation process. As part of this initiative, the International Finance Corporation (IFC) has been appointed the transaction advisor for the divestiture process of several high-profile SOEs, including Lanka Hospitals Corporation PLC, Sri Lankan Air Lines Ltd., and Sri Lanka Telecom PLC. In addition, the SOERU is seeking transaction advisors for divesting Sri Lanka Insurance Corporation Ltd., Canwill Holdings Pvt. Ltd. (Grand Hyatt Hotel), Hotel Developers Lanka Ltd. (Hilton Hotel Colombo), and Litro Gas Lanka Ltd. (Ministry of

Finance, 2023). The Public Expenditure Review Committee for the Ministry of Urban Development and Housing (2023) has also emphasized on the necessity of reviewing, winding-up, or restructuring the SOEs that have duplicative or nearly identical mandates. The report further recommends exploring the possibility of public-private partnership (PPP) model for SOEs with a training mandate.

Meaningful Reassignment of Development Officers

In 2023, the government decided to minimize recruitment in an effort to stabilize state expenditure. This decision prevented any possibility of recruitment without actual vacancies in the near future. In addition, the government has resorted to creative initiatives, such as assigning qualified graduates to existing government vacancies. For example, following a petition filed by a group of Development Officers regarding the competitive examination for recruitment to the Sri Lanka Teacher Service, the Ministry of Education decided to absorb 25,000 development officers who are currently engaged in teaching at government schools. Those who fulfill the required qualifications will be recruited following a special interview. However, the age limits for recruitment will be extended to 40 years for national schools and 45 years for provincial schools. In addition to such national-level decisions, most heads of departments and institutions are assigning clerical tasks, which are conventionally reserved for the Management Service Officers, to Development Officers due to the declining cadre number of the Management Service Officers in service.

The Public Administration Circular No.14/2022, titled "Granting Leave with No Pay to be Spent in or out of the Island to Public Officers Without Causing Any Prejudice to the Seniority and Pension", was enacted to provide public servants the opportunity to take no-pay leave for up to five years to undertake meaningful economic activities. The main purpose was to encourage the excess cadre, including Development Officers, to exit the public sector. But this initiative resulted in a large proportion of executive and technical cadre exiting the public sector while the number of employees in excess categories remained roughly the same.

Strengthening e-Governance

Despite the lack of a unified e-Governance initiative due to financial scarcity, several individual drivers are pushing progress in this area. The ICTA is lobbying the Cabinet of Minister to implement the draft e-Governance policy 2024. This is supported by the recommendations of the Public Expenditure Review Committee for the Ministry of Public Administration, Home Affairs, Provincial Councils and Local Government (2023), which calls for expediting the e-Grama Niladhari (e-GN) Project and ending data silos at the grassroots level. Similarly, the IMF Governance Diagnostic Assessment (2023) has identified the establishment of an online digital land registry as a priority recommendation. These initiatives will ensure that the incentives for arbitrary expansion of the public sector will be minimal in the future.

However, Sri Lanka is yet to combine the isolated e-Governance systems of different government entities. The Electronic National Identity Card Project (e-NIC) aiming to issue a Sri Lanka Unique Digital Identity (SL-UDI) number to every registered citizen has yet to materialize after more than a decade, partly due to the resistance to this consolidation.

Locus, Focus, and Actors in Rightsizing and Restructuring Initiatives

The Sri Lankan public sector has a complex institutional framework, as described above. It has expanded rapidly since the early 1960s and has become an overwhelming burden to the State. Successive governments have made attempts to reform the public sector through various measures, most of which have failed. However, rightsizing and restructuring for efficiency has presently become a national priority in the face of the economic crisis, with the role of public sector in exacerbating the crisis becoming increasingly deeper.

The locus of government rightsizing in Sri Lanka is focused on key areas where restructuring is imperative for national survival. Addressing the duplication of devolved provincial subjects at the

national level, restructuring public enterprises, and effectively reallocating surplus staff constitute the core of efficiency-driven reforms, as outlined in "Demand Side of Rightsizing and Restructuring".

The focus of rightsizing and restructuring initiatives should be guided by the Constitution, which documents national aspirations. According to Osborne and Gaebler (1992), the government must be governed by specific goals, not merely by laws. Article 27(4) directs that the State shall strengthen and broaden the democratic structure of government and the democratic rights of the people by decentralizing the administration. The legitimacy of rightsizing and restructuring initiatives depends on adherence to Article 27(4). Therefore, the main objective of reforms must be efficiency, not merely to cost reduction.

Therefore, the imperative of reducing layers of governance to decrease government expenditure cannot be directly translated into policy. As discussed above, PCs are a political construct that bridges the need for ethno-representation. Hence, as highlighted by the Public Expenditure Review Committees (2023), the focus is on reducing the duplication of scope and work at the provincial and national levels by discontinuing funding to national entities that carry out devolved subjects. The overlapping of roles and responsibilities between central and provincial departments has resulted in wastage of scarce resources and misuse of authority by political and administrative executives to a substantial level (Vijitha Herath, M.P. as cited in De Alwis, 2019). Bringing the DSs under the Provincial Councils will streamline the governance structure, increase bureaucratic efficiency, and eliminate any possibilities of duplication in the future. It will resolve the lack of real autonomy of authority and responsibility in the administrative levels that are below the center.

The focus of SOE restructuring must be on achieving sustainable reforms with transparency. State-Owned Enterprise Reform Policy (2023) provides a synchronized approach to realizing this focus. SOEs have been subjected to numerous policy changes, often drastically with each regime. For example, the National Equipment and Machinery Organization, initially established under the National Housing Development Authority in 1982 as an SOE, was made a unit of the State Engineering Corporation in 2011, but was again made an individual SOE is 2016 by a Cabinet decision. Further, restructuring must be transparent and accountable to withstand judicial scrutiny. In 2009, the Supreme Court annulled the sale of Sri Lanka Insurance Company (SLIC) to private interests due to the unethical and illicit nature of the transaction *(Sri Lanka Insurance Corporation Case, 2009)*. Since most restructuring efforts have failed due to the lack of enthusiasm in monitoring, evaluating, and adjusting appropriately (De Alwis, 2019), the focus must also be on establishing and maintaining a suitable mechanism for these processes.

Policymakers, bureaucrats, public sector employees, civil society organizations, and citizens are key stakeholders in the rightsizing process. Policymakers are indispensable in rightsizing as they provide the strategic direction, legal framework, and political leadership needed to implement rightsizing reforms effectively. Most restructuring efforts have gone astray due to the lack of political will. For example, the PC system is a failure due to the reluctance among national-level politicians in power sharing with peripheral entities. Rear Admiral Sarath Weerasekara, former State Minister of Provincial Councils and later Cabinet Minister of Public Security, asserted immediately after assuming office that land and police powers will not be delegated to PCs (Jayasundera, 2021). Similarly, Sri Lankan bureaucrats share the same reluctance to part with power. Any reform that dilutes a ministerial or departmental mandate will be vehemently opposed by senior bureaucrats. This has greatly contributed to the failure of successive reform efforts, from the ARC in 1986 to the SOE restructuring efforts in 2018 (De Alwis, 2019; Jayasundera, 2021; Wanasinghe, 1994). Additionally, the difference in the "language" spoken by political and administrative leaders has also impeded reforms. Civil society organizations also have a role in restructuring as they can lobby and rally for reforms. For example, the National Joint Committee, in a press release, cautioned former President Ranil Wickremesinghe in 2023 against his intentions to fully empower the PCs as outlined in the Constitution, arguing that it could open a "Pandora's Box".

Success and Failure Cases of Rightsizing: Key Success Factors and Key Failure Factors

Sri Lanka has made a number of rightsizing attempts since independence (De Alwis, 2019; Jayasundera, 2021; Wanasinghe, 1994), with some initiatives achieving favourable results and others failed. The success stories are founded on policies that empower citizens while improving the efficiency, economy, and effectiveness. These measures are deeply rooted in the national aspiration of strengthening and broadening the democratic structure of government and the democratic rights of the people by decentralizing the administration, as set out in Article 27(4) of the Constitution and the principles of NPM.

Success Cases of Rightsizing

Privatization of SOEs

Privatization has been a central strategy for restructuring and rightsizing the public sector in Sri Lanka, contributing to improved efficiency and economic growth. Beginning in the late 1970s, with a more aggressive push in the 1990s, privatization aimed to reduce the fiscal burden of lossmaking SOEs and enhance service delivery (De Alwis, 2019; Knight-John and Athukorala, 2005; Kelegama, 2004). By 1996, Sri Lanka had privatized around 50 SOEs, including major entities, such as Sri Lanka Telecom, the National Development Bank (NDB), and the plantations sector (Central Bank of Sri Lanka, 1998). The privatization of Sri Lanka Telecom in 1997, with a 35% stake sold to Nippon Telegraph and Telephone Corporation (NTT) of Japan for USD225 million, marked a key success. This deal not only improved efficiency but also modernized the telecom infrastructure and reduced the burden on public finances (Kelegama, 2004).

The privatization of the plantation sector in the mid-1990s, including tea and rubber estates, also proved impactful. Between 1992 and 2000, Sri Lanka divested more than 22 large estates, leading to a substantial increase in production and profitability. For instance, the privatized plantation companies helped boost tea exports, contributing to Sri Lanka becoming one of the world's leading tea producers (Central Bank of Sri Lanka, 2001). In 2002, Sri Lanka's privatization program generated over USD150 million in revenue, further alleviating the country's fiscal deficit, which had been a significant economic challenge (Ministry of Finance, 2003).

While there has been criticism of job losses and potential undervaluation of assets, privatization helped improve the performance of previously inefficient SOEs. For example, after privatization, Sri Lanka Telecom's market share grew, and its revenue increased by 25% from 1997 to 2002 (De Alwis, 2019; Kelegama, 2004). Overall, privatization reduced the government's role in commercial enterprises, fostering a more competitive, private-sector-driven economy while freeing up public funds for critical sectors, such as health, education, and infrastructure development.

Formulation of Public Management Assistants' Service

In 2004, in a bid to rightsize and reform the public service, the five main supporting services - general clerical service, shroff service, bookkeepers service, storekeepers service, and typist and stenographer service - were amalgamated to form the Public Management Assistants' Service (De Alwis, 2009). Establishing a single transferrable service consisting of multifunctioning officers with skills and knowledge in multiple duties essential for the workings of government offices was the main objective. Despite resistance and opposition from trade unions, this amalgamated service[9] continues to operate successfully to this day.

Introduction of e-Governance

The introduction of e-Governance in Sri Lanka is a noteworthy success story in public sector rightsizing and restructuring. The initiative, launched in 2002 with the establishment of the ICTA, played a pivotal

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[9]   Later this service was renamed "Management Service Officers' Service", owing to high agitation of the trade union.

role in restructuring by streamlining administrative processes and minimizing redundancies, a key objective in the NPM reforms adopted globally (Lips, 2008). One significant achievement of e-Governance is the enhancement of service delivery efficiency. Previously time-consuming processes, such as the issuance of passports, birth certificates, and motor vehicle licenses, were reduced significantly. For instance, passports can now be issued in one day, and a motor vehicle revenue license in just two minutes (National Council for Administration, 2006). The drastic reduction in processing times reflects the efficient restructuring of government operations and the effective use of technology, which has reduced the need for excess human resources and office spaces (ICTA, 2007). Individual organizations, such as Sri Lanka Customs and Department of Pensions, have successfully launched paperless systems with the expectation of future integration. Another example is the Department of Pensions in January 2025 that advanced the e-Pensions System to an integrated digital platform. In summary, Sri Lanka's e-Governance initiative has proven to be a significant step toward rightsizing and restructuring the public sector by improving efficiency, reducing redundancies, and fostering greater transparency, in alignment with global NPM trends and modern public sector management practices (ICTA, 2009).

DSs: The One-stop Shop

The introduction of DSs in Sri Lanka is widely regarded as a successful initiative in public sector rightsizing and restructuring. By delegating powers that were previously concentrated at the district level, the reform aimed to make governance more responsive and localized, reflecting the principles of administrative decentralization (Jayasundera, 2021; De Alwis, 2019). This shift facilitated a more citizen-centered approach, improving access to essential services, such as the issuance of birth, marriage, and death certificates as well as various social services. This approach was complemented by e-Governance initiatives, which have localized the systems of the Department of Pensions and Department of Registration of Persons.

From the perspective of NPM, the introduction of DSs aligns with decentralization, increased accountability, and improved service delivery. However, unlike NPM reforms, which emphasize market mechanisms and privatization (Hood, 1991), the DS system maintains a strong link to the national government. The DS, while exercising greater autonomy in handling devolved responsibilities, remains accountable to both the national government and provincial authorities. Nevertheless, the national government, through the Cabinet ministry with home affairs mandate, retains control over administrative matters (Dunham, 2000). The success of the DS system can be attributed to their role in bridging the gap between centralized authority and local needs, creating a more agile and responsive public service. Unlike typical NPM reforms, which sometimes prioritize efficiency over equity, this system emphasizes equitable service delivery through a hybrid governance model. By empowering local administrators while maintaining central oversight, it ensures a balanced approach to restructuring (De Alwis, 2019).

Failure Cases of Rightsizing
Provincial Councils

The PCs, established under the 13th Amendment to the Constitution in 1987, have largely failed to achieve the goals of rightsizing in line with national aspirations and NPM. PCs were established as a measure to promote decentralization, efficiency, accountability, and performance-based management. However, PCs have failed to achieve these objectives due to administrative duplication (Jayasundera, 2021; De Alwis, 2019; Wickramasinghe, 2009).

One major issue is the overlap of authority between the national government and PCs. The Concurrent List has caused administrative conflicts and hindered the PCs' autonomy. Similarly, the national government continues to operate in domains assigned to PCs by the Provincial Councils List. This duplication of functions contradicts NPM's goal of streamlining administrative functions to reduce redundancies and improve efficiency (National Council for Administration, 2006). Additionally, the political influence of the national government over the PCs, through the role of the Governor, further undermines decentralization efforts. The Governor, appointed by the President, wields power over

administrative functions within the province (Provincial Councils Act No. 42 of 1987). This politicization impedes the PCs' ability to act autonomously and efficiently (Marasinghe, 2018), which is a key principle of NPM. In conclusion, PCs have failed as a rightsizing and restructuring initiative, primarily due to conflicts in authority and inefficiencies caused by duplication.

Recommendations and Conclusions

Recommendations for Moving Forward

i)   Core recommendations for rightsizing

The recommendations for government rightsizing and restructuring to improve bureaucratic efficiency in Sri Lanka include streamlining governance structures, establishing clear policy frameworks, enhancing political will and support, promoting e-Governance, and implementing a monitoring and evaluation mechanism. Based on the synthesis above, the priority for rightsizing should focus on the clear demarcation of authority between the national and provincial governments, ensuring the consolidation of overlapping roles. The ideal commencement point for this recommendation is the suggestion in the Public Expenditure Review Committee (2023) report for reducing budgetary allocations to national agencies working in devolved subject domains.

ii)   Policy alignment and SOE reforms

The second recommendation is to establish clear and coherent policy frameworks that align with the national aspirations embedded in the "Directive Principles of State Policy and Fundamental Duties" Chapter of the Constitution. The SOE Reform Policy (2023) should be strictly adhered to, ensuring transparency and accountability in the restructuring of SOEs. This will help prevent the recurrence of past issues where policies changed with each regime, undermining long-term reform initiatives.

iii) Political commitment challenges

Political commitment is critical for the success of any rightsizing initiatives. Policymakers must overcome resistance to change, especially when it comes to decentralization and power-sharing. Similarly, achieving consensus among the main political parties as well as maintaining a strong resolve to withstand voters' demands for public sector employment is essential.

iv)   e-Governance prioritization

The next recommendation focuses on prioritization e-Governance over less unproductive sectors of the government. Increased budgetary provisions for e-Governance, as proposed in the Public Expenditure Review Committee report (2023), will not only boost service delivery but also reduce redundancy. Further, the implementation of this suggestion is crucial to ensuring the sustainability of the aforementioned rightsizing undertakings.

v)   Monitoring and evaluation framework

The final recommendation is the establishment and legalization of a robust monitoring and evaluation framework to track the progress of rightsizing efforts. As discussed earlier, historical rightsizing and restructuring initiatives in Sri Lanka have failed due to the lack of thorough follow-up. A strong monitoring mechanism will facilitate timely adjustments and ensure sustained focus on improving efficiency.

Conclusion

The importance of governance reforms as a central pillar of the IMF's Extended Fund Facility support program has rekindled the interest in rightsizing and restructuring Sri Lanka's public sector. These reforms are pivotal for resolving the present economic challenges. While previous reform attempts

have often failed due to political reluctance and inefficient governance structures, the current emphasis on transparency, accountability, and efficiency offers a promising pathway toward sustainable reforms in the present circumstances.

Successful restructuring initiatives, such as the privatization of SOEs and the introduction of e-Governance, as discussed above, demonstrate the potential for improvement when precise policies and frameworks are in place. However, failures like the PCs, which have become a burden, underscore the necessity of a unified strategy that strikes a balance between national aspirations and national policies.

Rightsizing has been recognized as a key problem area by numerous reform mechanisms, starting from the Administrative Reform Committee report of 1988. The Public Expenditure Review Committee (PERC) reports, the 2023 SOE Reform Policy, and IMF Governance Diagnostic (2023) have laid a strong foundation for rightsizing and restructuring the public sector. With the political will to end patronage within the public sector and the consensus of both political and bureaucratic leadership to dilute authority, Sri Lanka can achieve efficiency through public sector rightsizing and restructuring.

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CHAPTER 9: CONCLUSION

LESSONS AND PATHWAYS FORWARD IN PUBLIC SECTOR RIGHTSIZING ACROSS SEVEN APO MEMBER ECONOMIES

Comparison of Rightsizing Initiatives in Seven APO Member Economies

Rightsizing the public sector is a crucial reform strategy employed by governments to enhance efficiency, reduce costs, and optimize service delivery. This report examines rightsizing efforts in seven Asian Productivity Organization (APO) member economies. By exploring different approaches, ranging from agency-driven initiatives in Fiji and Mongolia to nation-wide programs in Malaysia, Nepal, Pakistan, the Philippines, and Sri Lanka, these selected member chapters demonstrate how each nation has pursued rightsizing efforts shaped by unique political, economic, and administrative contexts. This chapter aims to highlight key similarities and differences in both the demand and supply aspects as well as the critical challenges encountered and the outcomes achieved, which leads to policy-relevant takeaways.

TABLE 9.1

COMPARATIVE ANALYSIS OF RIGHTSIZING ON DEMAND, SUPPLY, CHALLENGES, AND OUTCOMES

APO Member Economy	Demand-side Factors	Supply-side Factors	Challenges	Intended Outcomes
Fiji	• Fiscal constraints • Increasing demand for service delivery quality • Regulatory oversight	• Business Process Re-engineering (BPR) • ISO 9001, devolution of HR • Digitalization	• Financial constraints • Institutional inertia	• Improved efficiency • Enhanced quality of service delivery
Malaysia	• Large bureaucracy • Redundancies and inefficiencies in service delivery • Desire for sustainable economic performance	• Streamlining administrative processes • Workforces optimization • Digital transformation	• Financial constraints • Operational and public service disruption • Maintaining talented public servants	• Optimizing public workforce and quality of government • Eventually, sustainable economic growth
Mongolia	• Bureaucratic inefficiencies • Service gaps, fiscal constraints • Growing demand for social services • New national goals	• Government Process Reengineering (GPR) • Digital governance • Productivity enhancement tools and process analysis • Quality standards, like ISO	• Resistance to change • Coordination issues	• Reduced public service delivery steps • Citizen satisfaction • Optional size and structure of government • Operational efficiency

APO Member Economy	Demand-side Factors	Supply-side Factors	Challenges	Intended Outcomes
Nepal	• Inefficient bureaucracy and resource allocation among different levels of governments • Service decentralization needs	• Administrative reforms and decentralization • Federalism initiatives • Employee redistribution and reduction • Local governance empowerment	• Bureaucratic inefficiency • Lack of clarity in authorities of different levels of government • Bureaucratic resistance and skill shortages	• Partial success • Uneven implementation across government levels
Pakistan	• Fiscal deficits • Inefficient SOEs • Need for governance reform	• SOE restructuring • Performance contracting • e-Governance initiatives	• Political instability • Weak enforcement	• Mixed results • Frequent policy reversals
Philippines	• Overlapping functions • Outdated government structure • Demand for better services	• Rationalization Program • Government core functions • Digitalization	• Excessive consultation • Prolonged process	• Enhancing government's core functions for enhanced efficiency and effectiveness
Sri Lanka	• Large public workforce • Fiscal burdens • Low efficiency of government and SOEs	• Rightsizing of provincial councils • Privatization of loss-making SOEs • Restructuring of ministries • e-Government initiative	• Lack of sustainable political and government support and leadership • Fiscal constraints	• Efficient bureaucracy • Devolution and decentralization • Effective public service

While the approaches differ based on national contexts, as summarized above, common challenges, such as bureaucratic inefficiencies, political resistance, and the complexity of implementation, remain prevalent. The following APO member-specific insights illustrate the diverse drivers, strategies, and challenges that have characterized rightsizing efforts in these economies.

In Fiji, demand-side drivers of rightsizing include growing fiscal pressures due to rising public sector wage bills, the need to standardize service delivery processes, and the push for digital adaptation. To address these issues, the government has implemented several supply-side initiatives, including Business Process Re-engineering (BPR), the adoption of ISO 9001 certification to enhance service efficiency, the devolution of human resource management, and the digital transformation of labor inspection systems. However, financial constraints and chronic institutional inertia continue to challenge the continuity and institutionalization of these reforms.

Malaysia's rightsizing agenda is shaped by a broader national initiative to enhance government efficiency and effectiveness. As part of this effort, the government has pursued various rightsizing and restructuring initiatives, such as Government Transformation Program (GPT), which seeks to optimize public workforces, streamline administrative procedures, and digitalize internal operations and public service delivery. Nonetheless, these efforts are often hindered by financial constraints which limit the scale of severance packages and funding for restructuring costs. In addition, bureaucratic resistance and significant gaps in implementation have limited the overall impact of the reforms.

Mongolia faces a combination of bureaucratic inefficiencies, inadequate service delivery mechanisms, and growing demand for social services. The pressures are further intensified by demographic changes and new national development goals articulated in the Vision 2050 strategy. In response, the government has introduced initiatives, such as Government Process Reengineering (GPR), digital process streamlining, and the establishment of a risk management framework to address systemic issues. Despite these efforts, resistance to restructuring and the challenges of transitioning to digital platforms have slowed progress.

In Nepal, the transition to a federal system of governance has introduced new complexities to public administration. Key demand-side drivers include challenges in federal restructuring, the need for decentralized service delivery, and persistent bureaucratic inefficiencies. To address these concerns, the government has launched several supply-side initiatives, including the establishment of multiple administrative reform commissions, the restructuring of the federal civil service, and the redistribution of personnel across different government tiers. However, due to the lack of clarity regarding the distribution of authorities among different levels of government and bureaucratic resistance to rightsizing and restructuring initiatives, implementation has remained inconsistent across sectors, thereby hampering overall rightsizing reform effectiveness.

Pakistan's rightsizing efforts are primarily driven by a severe fiscal crisis, inefficiencies within state-owned enterprises (SOEs), and pervasive corruption in public administration. The government has taken steps, such as introducing performance contracting, restructuring of SOEs, and the digitalization of government services, to improve accountability and service efficiency. Despite these initiatives, political instability and the slow pace of policy implementation continue to obstruct meaningful progress.

In the Philippines, demand-side pressures stem from overlapping functions, outdated organizational structures, and increasing citizen demand for improved public services. The government responded by implementing the Rationalization Program under Executive Order 366, which focused on the rationalization of government functions, the rightsizing of government manpower to perform core government functions, and the modernization of governance structures. Nevertheless, the program has encountered challenges, including excessive consultation in the course of pursuing the rationalization plan, which often caused delays and complications in its execution.

Sri Lanka's rightsizing agenda is influenced by the burden of a large and costly public workforce, a high government wage bill, and growing public dissatisfaction with service delivery. In response, the government has initiated measures, such as the downsizing of provincial councils, privatizing inefficient SOEs, and the application of e-governance initiative to enhance efficiency and effectiveness of government operation and quality of services. However, some efforts are frequently undermined by a lack of sustainable political and government will and leadership as well as fiscal constraints, which often limit the ability to implement reforms effectively and sustainably.

Successes and Failures of Rightsizing Initiatives in Seven APO Member Economies

Rightsizing has been a central strategy for governments seeking to improve public sector performance, streamline administrative processes, and ensure fiscal sustainability. While many countries have made significant progress, the path toward effective rightsizing is often met with institutional, political, and financial challenges. This section shows an overview of the successes and failures of rightsizing initiatives in seven APO member economies.

Fiji experienced notable success through its adoption of ISO 9001 certification for core business functions, which contributed to improved efficiency and enhanced accountability in public service delivery. Additionally, the digital transformation of compliance mechanisms and labor inspections led to more streamlined and transparent procedures. However, the sustainability of these initiatives was undermined by budget constraints and institutional inertia, resulting delayed advancement and impeded the establishment of sustainable and effective rightsizing reforms. Moreover, the digitalization agenda remained incomplete, with several government services continuing to rely on manual processes.

In Malaysia, the Government Transformation Program (GTP) introduced performance-based management practices, streamlined administrative procedures, and expanded digital governance, which led to tangible improvements in service delivery. The implementation of the Voluntary Separation Scheme (VSS) further supported rightsizing efforts by reducing the size of the public

workforce without resorting to forced layoffs. Nevertheless, concerns about potential disruption of government operation and service delivery significantly slowed the implementation of more aggressive rightsizing initiative. Furthermore, ongoing financial constraints rendered the active implementation of VSS unsustainable over time while attraction and retention of talented public workforce remain challenging.

TABLE 9.2

COMPARATIVE OVERVIEW OF KEY SUCCESSES AND FAILURES IN SEVEN APO MEMBER ECONOMIES

APO Member Economies	Successes	Failures
Fiji	• Achieved ISO 9001 certification • Digital transformation in compliance and labor inspections	• Reinstatement of certification lapsed due to budget constraints • Incomplete digitization of client registration for local formal employment and reporting mechanisms
Malaysia	• Government Transformation Program (GTP) led to efficiency gains, e-governance expansion • Voluntary Separation Scheme (VSS) facilitated workforce reduction	• Financial constraints • Variations among different agencies • Maintaining quality of services • Handling operational disruption caused by workforce reduction
Mongolia	• Reduced bureaucratic bottlenecks • Streamlined processes • Improved public service efficiency	• Inadequate monitoring • Resistance to change • Lack of integration among digital systems
Nepal	• Local-level government restructuring • Effective employee redistribution	• Redundancy in healthcare sectors • Expansion of federal government roles
Pakistan	• Digital transformation • Performance-based reforms • Streamlined administrative structures	• Inconsistent policy execution due to political instability • Incomplete fiscal devolution
Philippines	• Rationalization Program focused on its key functions and its resources on these functions • Rationalization Program improved efficiency and streamlined bureaucracy	• Delays in implementation was due to too much consultation brought about by agency concerns in the emerging structure and staffing
Sri Lanka	• Successful privatization of key SOEs • Introduction of e-governance	• Bureaucratic redundancy, overlapped authorities and administrative duplication, as demonstrated in the case of Provincial Councils

Mongolia's rightsizing agenda under the Government Process Re-engineering (GPR) initiative succeeded in reducing bureaucratic inefficiencies and enhancing the quality of public service delivery, owing largely to strong leadership, systematic process analysis, citizen engagement, and applications of digital technologies, among others. These efforts helped modernize administrative functions and improve institutional responsiveness. However, deep-rooted bureaucratic resistance and difficulties in both intra and interagency coordination often interrupted and delayed the pace of reform. Additionally, the absence of a fully integrated digital system led to operational inefficiencies and limited the overall effectiveness of the restructuring process.

Nepal achieved success through the restructuring of local-level governments, which led to enhanced administrative efficiency and a more responsive service delivery. These reforms allowed for better alignment of services with local needs. However, the simultaneous expansion of federal government functions introduced redundancies and overlapping responsibilities, thereby increasing operational inefficiencies and negating some of the benefits of decentralization.

In Pakistan, the digital transformation of governance processes played a key role in enhancing operational efficiency. The introduction of performance-based reforms also contributed to more

streamlined administrative structures. However, political instability frequently disrupted reform momentum, leading to inconsistent policy execution. Moreover, the incomplete implementation of the devolution process restricted fiscal autonomy at the provincial level, thereby limiting the effectiveness of decentralization and rightsizing goals.

The Philippines made considerable progress through the Rationalization Program, which successfully reduced redundancies and improved the allocation of resources across government agencies. This led to a leaner and more focused public administration. Despite these gains, the implementation of the program faced significant delays due to prolonged consultation brought about by agency concerns in the emerging organizational structure and staffing patterns, which ultimately slowed the pace of reform.

In Sri Lanka, the privatization of SOEs led to partial improvements in financial stability and operational efficiency. Additionally, the adoption of e-governance initiatives helped modernize administrative processes and improved service delivery. Nevertheless, bureaucratic redundancies persisted, impeding the broader restructuring agenda. Furthermore, reforms targeting SOEs also often encountered resistance and lack of continued political will, which complicated and delayed implementation and reduced reform impact.

Comparison of Policy Recommendations for Rightsizing Initiatives in Seven APO Member Economies

This section examines the policy recommendations for rightsizing initiatives in seven APO member economies. Based on selected target and case studies, each member report proposes a set of unique policy recommendations, largely based on the successes and failures of past rightsizing initiatives.

TABLE 9.3

COMPARATIVE OVERVIEW OF KEY POLICY RECOMMENDATIONS

APO Member Economies	Key Policy Recommendations
Fiji	• Quality management through ISO recertification • Full-scale digital transformation • Sustainable financial planning • Strategic workforce planning and modernization
Malaysia	• Stakeholder engagement • Phased implementation • Upskilling and reskilling workforce • Digital transformation • Governance and accountability mechanisms • Fiscal sustainability • Interagency collaboration • Continuous monitoring and evaluation
Mongolia	• Alignment between organizational structures and service delivery needs • Enhance digital integration • Build robust monitoring and evaluation frameworks • Increase stakeholder engagement • Invest in continuous training • Scale up rightsizing reforms
Nepal	• Adoption of the Federal Civil Service Bill • Political consensus on bureaucratic restructuring • Comprehensive reviews to eliminate redundancy • Clarification of government roles • Enhancement of financial and human resources for local governments • Policy priority on targeted sectors, like healthcare sector

APO Member Economies	Key Policy Recommendations
Pakistan	• Transparency in reform processes • Empowerment of oversight bodies for SOE management • Address functional duplications • Application of digital tools • Improvement of fiscal sustainability • Public service accountability
Philippines	• Leadership commitment • Implementation of structured change management programs • Technical assistance for strategic workforce review • Introduction of safety nets for displaced employees • Robust communication strategies
Sri Lanka	• Streamlining of governance structures • Establishment of clear policy frameworks • Political commitment • Privatization of SOEs • Advancement of e-governance • Implementation of a strong monitoring and evaluation mechanism

To strengthen public administration in Fiji, it is essential to reestablish ISO certification and promote adherence to international quality standards across core government functions. A holistic digital transformation strategy should be implemented to ensure seamless and integrated service delivery across sectors. In parallel, sustainable financial planning mechanisms must be developed to prevent budget constraints from undermining ongoing reform efforts. Strategic workforce planning is also crucial to align public sector functions with the evolving needs of the labor market.

Malaysia is encouraged to prioritize strong stakeholder engagement by incorporating transparent planning and feedback mechanisms into the reform process. Restructuring initiatives should be implemented in phased stages to minimize disruptions and allow for gradual adaptation. Investing in workforce upskilling is critical to support digitalization goals and enhance process efficiency. Additionally, governance and accountability should be strengthened through effective oversight mechanisms and prudent fiscal management.

Mongolia must improve organizational alignment with public service demands to increase administrative efficiency. A key component of this process is the expansion of digital integration, which involves ensuring platform interoperability and building technical capacity within government institutions. To ensure effectiveness, continuous monitoring and evaluation frameworks should be implemented to track reform progress and outcomes. Stakeholder engagement should be prioritized to build broad-based support and reduce resistance to change. Moreover, targeted capacity-building initiatives are needed to equip civil servants with relevant and up-to-date skills.

In Nepal, the expedited adoption of the Federal Civil Service Bill is a critical step toward establishing a robust legal framework for federal public administration. Building cross-party political consensus is vital to ensure continuity and long-term success of restructuring efforts. Systematic reviews should be conducted to identify and eliminate redundancies, and ensure optimal allocation of resources. To avoid inefficiencies, clearly defined roles and responsibilities must be established across various levels of government. It is also essential to invest in both financial and human resource capacities for local governments to strengthen their autonomy and service delivery capabilities.

Pakistan needs to maintain transparency in rightsizing and privatization initiatives to foster public trust and institutional legitimacy. Strengthening governance frameworks will improve oversight and enhance fiscal discipline. Reducing functional duplication between federal and provincial functions is necessary to enable coherent policy execution. Additionally, the government should expand digital transformation initiatives to streamline bureaucratic processes and improve service delivery. Priority should also be given to fiscal reforms that aim to reduce deficits and improve public expenditure management.

In the Philippines, leadership commitment to reform should be institutionalized through formalized policies and legal mandates. Structured change management programs should be introduced to facilitate smooth transitions during rightsizing processes. Providing technical assistance for strategic workforce analysis and planning is essential for effective implementation. Financial and career transition programs should be established to support employees affected by organizational changes. In parallel, strengthening communication strategies is also important to ensure clear messaging and gain stakeholder support throughout the reform journey.

Sri Lanka should implement governance reforms to address overlapping functions and streamline government operations. The establishment of stable and coherent policy frameworks is necessary to provide consistency and long-term direction for rightsizing efforts. Political commitment to reform, particularly in the area of decentralization, needs to be reinforced to drive institutional transformation. Increased investment in e-governance is recommended to reduce bureaucratic inefficiencies and modernize administrative systems. Finally, robust monitoring and evaluation mechanisms should be developed to track reform implementation in real time and allow for adaptive management.

These recommendations highlight the importance of comprehensive, context-sensitive approaches to rightsizing and public sector reform. Cross-cutting themes include the need for political will, stakeholder engagement, capacity development, digital transformation, and institutional accountability. By implementing these measures, governments can build more agile, responsive, and sustainable public administrations capable of meeting current and future challenges.

Takeaways: Comprehensive Policy Recommendations for Rightsizing Based on Lessons Learned from Seven APO Member Economies

Rightsizing the public sector is a strategic initiative that governments undertake to improve efficiency, reduce financial burdens, and enhance service delivery. This section consolidates key policy recommendations derived from the lessons learned from seven selected APO member economies. By addressing common challenges and implementing best practices, governments can ensure that rightsizing reforms are sustainable, effective, and aligned with long-term governance objectives.

The following seven takeaways provide actionable guidelines for effective rightsizing and restructuring reforms in the public sector:

i)   **Establishing a strong legal and institutional framework and leadership support**

A rightsizing initiative requires a solid legal and institutional foundation to ensure its success and durability. Governments should adopt legislative measures that formalize rightsizing processes, thereby ensuring that these efforts persist beyond political transitions and are not reversed due to leadership changes. Clearly defining the roles and responsibilities across national, regional, and local levels can prevent redundancy and ensure that every level of government operates efficiently. To maintain accountability, leadership must remain strongly committed to the reform agenda while oversight bodies should be strengthened to monitor restructuring progress, assess policy effectiveness, and ensure that inefficiencies and corruption are consistently addressed. The establishment of performance-based management and monitoring systems will also provide objective assessments of service delivery improvements and help identify gaps in implementation.

ii)   **Enhancing stakeholder engagement and communication**

Resistance from public sector employees, unions, and other stakeholders can significantly hinder the success of rightsizing initiatives. Governments must engage these stakeholders proactively from the earliest stages of the reform process through consultations with civil servants, unions, and the public. Transparent communication about the visions, goals, benefits, and impact of

rightsizing efforts helps reduce opposition and bureaucratic resistance, and builds public and bureaucratic trust in reform initiatives. Change management programs should be carefully prepared to support employees in transitioning to new roles and responsibilities, providing them with timely information about retraining and career transition opportunities. A well-structured communication strategy will help address the state of current problems as well as increase public awareness and support for restructuring efforts.

iii)   **Investing in workforce planning and capacity building**

A well-planned workforce strategy is crucial to ensuring that public sector employees are equipped to adapt to new roles and responsibilities following the implementation of rightsizing efforts. Governments should conduct systematic assessments of current government size, and align workforce planning with future government functions and societal needs. Structured upskilling and reskilling programs should be introduced to provide public officials with the competencies necessary for modern public administration, particularly in areas, such as digital literacy and policy analysis. Additionally, career transition programs should be developed to support displaced workers through financial assistance, professional retraining, and job placement services, thereby helping mitigate bureaucratic resistance as well as negative social and economic impacts.

iv)   **Harnessing digital technologies for efficiency and service quality**

Technology plays a critical role in streamlining administrative processes and improving government efficiency and service quality. Governments should prioritize the development of integrated e-government platforms that consolidate services and minimize bureaucratic hurdles. Ensuring interoperability among digital services across different government agencies is crucial for fostering coordination and data sharing, which is critical to advancement of digital transformation for intergovernment and interagency integration and enhanced digital public services.

v)   **Ensuring fiscal sustainability and cost management**

To avoid financial instability, rightsizing initiatives must align with broader economic goals and long-term financial planning. Governments should conduct thorough cost-benefit analyses before implementing restructuring measures to ensure that reforms lead to sustainable cost savings rather than short-term reductions. Alternative financial sources, including public-private partnerships (PPPs) and international donor assistance, can help finance key restructuring efforts while minimizing the financial burden on the government. Prioritizing fiscal discipline through the reduction of unnecessary expenditures and reallocation of resources toward high-impact areas will ensure the long-term sustainability of rightsizing efforts.

vi)   **Encouraging decentralization and devolution of government functions for efficient and effective service delivery**

Decentralization and devolution can significantly improve service delivery by empowering local governments with administrative and financial autonomy. Such empowerment allows local governments to allocate limited resources for community-specific needs. To achieve this, national governments should secure and provide additional financial and human resources to local governments, allowing them to effectively manage their responsibilities. At the same time, central governments need to maintain coordination capacities through which intergovernmental relationship is effectively managed. Coordination among national, regional, and local agencies is necessary to prevent duplication of efforts and ensure a cohesive governance structure. Clearly defining governance roles and responsibilities within decentralized frameworks will enhance accountability and reduce inefficiencies in service delivery.

vii)   Establishing monitoring, evaluation, and continuous improvement mechanisms

A strong monitoring and feedback system is critical to assessing the success of rightsizing initiatives and making necessary adjustments. Governments should develop independent monitoring bodies tasked with overseeing the implementation of restructuring reforms and ensuring that objectives are met. Real-time performance tracking systems should be implemented to measure progress, allowing for timely interventions when necessary. In addition, periodic evaluations and impact assessments should be conducted to refine reform strategies and ensure that rightsizing efforts remain aligned with evolving governance priorities.

The experiences of Fiji, Malaysia, Mongolia, Nepal, Pakistan, the Philippines, and Sri Lanka demonstrate the importance of careful planning, leadership commitment, strong stakeholder engagement, digital transformation, and fiscal sustainability in rightsizing initiatives. By adopting these comprehensive policy recommendations, governments can create a leaner, more efficient, and citizen-focused government system that supports long-term national development goals. When implemented through a strategic and context-based approach, these reforms will not only enhance service delivery but also ensure the resilience and adaptability of government institutions in the face of changing socioeconomic and technological challenges.

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REFORMING SRI LANKA'S PUBLIC SERVICE -
LESSONS FROM DEVOLUTION, E-GOVERNANCE, AND ECONOMIC CRISIS

ABBREVIATIONS AND ACRONYMS

ADB	Asian Development Bank
AGS	Authority of Mongolian Government Supervisory
AI	Artificial intelligence
APO	Asian Productivity Organization
ARC	Administrative Reform Commission
BARS curve	Works of Barro, Armey, Rahn, and Scully
BISP	Benazir Income Support Program
BPO	Organizational Development Division
BPR	Business Process Re-engineering
CC	Citizens Charter
CEA	Cost-effectiveness analysis
CMT	Change Management Team
CMU	Central Monitoring Unit
CPA	Central Personnel Agency
CRR	Central Committee on Rightsizing and Restructuring
CSC	Civil Service Commission
DBM	Department of Budget and Management
DGCCR	Digital Government Competency and Capability Readiness
DRCN	Democracy Resource Center Nepal
DS	Divisional Secretariats
EDO	Economic Development Officer
EFF	Extended Fund Facility
EO	Executive Order
FDI	Foreign direct investment
FWA	Flexible Work Arrangement
FY	Fiscal year
GA	Government Agent
GDP	Gross Domestic Product
GOCCs	Government-owned and/or -controlled corporations
GPR	Government Process Re-Engineering
GST	Goods and Services Tax
GTP	Government Transformation Programme
GWE	Government wage earners
HLCIMAR	High Level Committee for Implementation and Monitoring of Administrative Reform

HoCo	Holding company
HR	Human resource
HRMIS	Human Resource Management Information System
ICT	Information and communication technology
ICTA	Information and Communication Technology Agency
ILO	International Labour Organisation
IMD	International Institute for Management Development
IMF	International Monetary Fund
ISO	International Organization for Standardization
IT	Information technology
JPA	Jabatan Perkhidmatan Awam
KPIs	Key performance indicators
LGUs	Local government units
LLC	Local Level Restructuring Commission
M&E	Monitoring and evaluation
MACC	Malaysian Anti-Corruption Commission
MAMPU	Malaysian Administrative Modernization and Management Planning Unit
MEPWR	Ministry of Employment, Productivity, and Workplace Relations
MLSP	Ministry of Labor and Social Protection
MoF	Ministry of Finance
MoFAGA	Ministry of Federal Affairs and General Administration
MoHP	Ministry of Health and Population
NCGR	National Commission for Government Reforms
NEPC	North-East Provincial Council
NHRC	Nepal Health Research Council
NITB	National Information Technology Board
NKRAs	National Key Result Areas
NOHSS	National Occupational Health and Safety Service
NPM	New Public Management
NRS	New Remuneration System
O&M	Organization and management
O&M	Organization and methods
OCMCM	Office of the Chief Minister and Cabinet of the Ministers
OECD	Organisation for Economic Co-operation and Development
OHS	Occupational health and safety
OMRS	Open Merit Recruitment and Selection

PARC	Public Administration Reform Commission
PAs	Performance Agreements
PC	Provincial Council
PCEG	Presidential Committee on Effective Governance
PIA	Pakistan International Airlines
PM	Prime minister
PROSPEK	Potential and Competency Integrated Program
PSD	Public Service Department
PTM	Mind Transformation Programme
QMS	Quality Management System
RA	Republic Act
RACI	Responsible, Accountable, Consulted, and Informed
RP	Rationalization Program
SLIP	Skills/Livelihood and Investment Program
SOERU	SOE Restructuring Unit
SOEs	State-owned enterprises
SR	Strategic Roadmap
SSM	Malaysian Remuneration System
SSPA	Public Service Remuneration System
TN50	National Transformation 2050
UKAS	United Kingdom Accreditation Service
UN	United Nations
UNDP	United Nations Development Programme
USC	Utility Stores Corporation
VSS	Voluntary Separation Scheme
WEF	World Economic Forum

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