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## **Recent evolution of public sector structure in Latin America: describing and explaining shifts in autonomy trends in Colombia and Venezuela**

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### **Abstract**

This paper has two objectives. First, to review and assess the recent evolution regarding agency design in Colombia and Venezuela. Particularly, we study agencies' formal autonomy in these two countries since the year 1999 when Venezuela experienced a major government policy change towards socialism. Thus, we attempt to explore how this policy change is reflected in the formal autonomy of agencies. Our second objective is to test if despite the differences in the policy choices that the two countries have taken in the last years, there are theoretical factors, related to agencies' design, which can explain the level of formal autonomy that agencies have. The results show two main elements: first, that even though the patterns of formal agency autonomy in Colombia and Venezuela differed before Venezuela's latter policy change, the differences between these two countries have increased since 2000. This indicates that each country's policy preferences may account for the differences encountered. Second, for both countries, we found that despite the differences, agency level factors such as the primary task which agencies perform and the policy sector in which they are active have had an impact in their level of formal autonomy. However, the results indicate that these relations do not follow the predictions made based on the different theoretical perspectives.

### **1) Introduction**

One of the main characteristics of government reforms in the last few years has been the establishment of disaggregated bodies called agencies (Flinders & Smith 1999; Pollitt & Talbot 2004). These agencies were created and designed to perform formerly centrally-organized government tasks (Verhoest et al. 2010). This phenomenon has implied a rearrangement of the relationship between the central government (i.e. ministers and parent departments) and agencies (Christensen & Laegreid, 2006). Due to the delegation of tasks, agencies obtain a certain level of autonomy, which partially exempts them from the traditional control and direction ministries and departments.

In this paper we study a particular characteristic of agencies' design, being their formal autonomy, as well as how it is affected by political preferences regarding design, and by agency level characteristics such as the policy sector in which the agency is located, as well as the tasks they perform. This study focuses on two Latin American countries, Colombia and Venezuela. We have

chosen the abovementioned factors because they have been constantly used in research about agencies design and autonomy.

The paper has two objectives. First, to review and assess the recent evolution regarding agency design in Colombia and Venezuela. Particularly we study agencies' formal autonomy in these two countries since the year 1999<sup>1</sup> when Venezuela experienced a major government policy change towards socialism. Thus, we attempt to explore how this policy change is reflected in the formal autonomy of agencies. Our second objective is to test if despite the differences in policy choices that the two countries have taken in the last years, there are theoretical factors, related to agencies' design, which can explain the level of formal autonomy that agencies have. Hence the selection of the two countries had the purpose of, on the one hand, comparing two countries with very different recent policy choices and, on the other hand, addressing the explanatory power of certain theoretical factors despite those differences, on the other.

Studying the formal autonomy of agencies reflects the political preferences of elected officials when designing them. Providing formal autonomy to agencies or not is a design decision taken by politicians that reflects the extent to which politicians wish to separate agencies' internal decision-making from politics, or to have direct control over them (Yesilkagit , 2004). By formal autonomy we follow closely Verhoest (et al. 2004) and their notions of legal autonomy and structural autonomy. Legal autonomy refers to the situation in which the legal status of the agency prevents the government to interfere in the decision making competences of it. Structural autonomy refers to the existence of a governing board which acts as a protection layer to political interference. Thus, these two dimensions deal with the degree to which an agency is capable of functioning, managing their resources, and taking decisions by their own without interference from the parent minister or other political actor.

The creation of agencies since the 1990s in Venezuela and Colombia is related with two factors: first, with the adoption of a neo-liberal economic model at the end of the 1980s, which meant privatization, deregulation of markets, creation of regulatory agencies, as well as fiscal and tax reforms (Sarmiento, 1994; Jaimes, 1996; Jordana & Levi-Faur, 2005). Second, New Public Management type of reforms in both countries were discussed, and to some degree implemented. The overall topics of the reforms were: simplification of state structures, disaggregation of organizations (creating agencies), contracting out, measurement performance, and shifting to output focus.(Garcia, 2008).

That being said, this paper however, is not about delegation as such or agency fever (Pollit et al., 2001), which is more related with the creation or removal of agencies and changes in their task and policy sector over time (Yesilkagit & Christensen, 2009). This means that we do not study what

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<sup>1</sup> For the analysis of this paper we use as starting point for the analyses the year 2000 and the 1999 when President Chavez took office, because there was not data for that year in the case of Venezuela. However, we do not expect major differences to occur between the years 1999 and 2000, since major public sector reforms need time to show their effects. Actually, as the results of this paper show the major differences between Colombia and Venezuela are seen not at the beginning of the period of study but in the middle of it

happens to an specific agency over time, but rather the overall levels of formal autonomy, which are related with general design decisions.

The relevance of this research lies in the fact that until this point the focus of agency research has rarely gone beyond OECD member countries. Then, we aim to add new insights to the few studies of agencies from a non-OECD perspective (Sulle, 2010; Tavits & Annus, 2006; Sezen, 2007).

Furthermore, the autonomy of public sector organizations in developing countries has been linked to the capacity of organizations to reach a high level of efficiency even within hostile environments (Bebbington & McCourt, 2007; Wilson, 1989; Israel, 1987). The argument is that organizations which can function with autonomy vis-à-vis political operators and respond to pressures for effectiveness will be more likely to become what has been named 'pockets of effectiveness' (Daland, 1981; Leonard, 2010). This means that agencies with higher levels of autonomy are more insulated from political interferences than those with lower levels of autonomy. Therefore, in the case of countries, which have strong clientelistic practice in their functioning, such as Colombia and Venezuela (Nef, 2005; Restrepo, 2003), studying the autonomy of agencies is highly relevant

Finally, since we have chosen Colombia and Venezuela as countries of study because they took a similar reform path during the 1990s (Jaimes, 1996; Garcia, 2008), and they have had opposite policies during the last decade we are able to assess the effect of the policy changes in the patterns of agencies' formal autonomy. Additionally, with this country's selection we aim to explore if factors which have been important to explain formal autonomy in agency research also apply to developing context.

### **1.1) Research questions**

This paper is guided by two main sets of research questions. The first one have a evaluative aim: What have the trends in formal autonomy of public sector agencies been from 2000 to 2011 in Colombia and in Venezuela? And, what has the effect of the policy preferences adopted in Venezuela been on agencies formal autonomy?

The second set of research questions refers to the theoretical perspectives that will be used in this research: What theoretical factors can explain the level of formal autonomy of agencies in Colombia and Venezuela? Does the explanatory power of these factors hold throughout the period 2000-2011?

### **2) Theoretical perspectives**

We have included some explanatory factors in order to generate specific hypotheses which can be framed in a theoretical perspective that traditionally has been used in agency research: rational choice institutionalism The hypotheses derived from this perspective are related mainly with task and policy sector characteristics at the agency level. Additionally we have developed a country comparison hypothesis, which is based on the developments of the two countries regarding public sector structure in the last decades.

## **2.1) Rational choice institutionalism**

Within the rational choice perspective it is possible to find explanations based on two competing theoretical logics that have been highlighted in the process of agencies' design and that affect their autonomy (Horn 1995; Yesilkagit 2004): the logic of the agency problem and the logic of commitment problem. The agency problem is derived from the principal agent theory (McGuire, Pratt, & Zeckhauser, 1991) which stresses the difficulties in transactions and contractual relations between both principals and agents. These difficulties are related to the asymmetry of information of the latter over the former and the tendency of agents to use that information to pursue their own interest. Based on the agency problem perspective, Verhoest et al. (2010) highlights the fact that tasks are more efficiently delegated and given with higher levels of autonomy when: the results are easy to measure, the objectives are easy to define (Jensen and Meckling 1976; Wilson 1989), the activities are homogenous (Wilson 1989; Ter Bogt 1998), and the level of asset-specific investments to be made is low (Williamson 1985; Van Thiel 2001). Normally, these different aspects are strongly correlated to each other. (Verhoest et al. 2010) Thus in the remainder of this work, we focus on the measurability of these tasks as a crucial aspect.

The relation between task measurability and formal autonomy is that those tasks are easier to control by principal as clear output targets can be established. Thus principals are more likely to give formal autonomy to agencies that perform more measurable tasks (Verhoest et al.,2010).

Based on the former, the first hypothesis of this article is:

*H1: Agencies that have tasks which are easy to measure are easier to control, and thus have higher levels of formal autonomy compared with agencies that have task that are not easy to measure.*

An additional element that affects the formal autonomy of agencies is the political salience of certain tasks (Pollitt, 2004; Krause, 2003). Political salience is generally considered to be high when the execution of the tasks involves regular contacts with a large set of users and a significant impact upon a large amount of citizens or organizations. These types of tasks are likely to be more highly controlled by the principals leading to the granting of less formal autonomy. This is because these tasks are perceived as potentially influence citizens' support and their voting behaviour which involves higher risks for politicians in terms of re-election. Normally, agencies with highly politically salient tasks are predominantly located in the welfare and social policy sectors (Pollitt 2005).

Hence the second hypothesis of this research is framed as follows:

*H2: Agencies located in the welfare and social sectors are more politically salient and thus have lower levels of formal autonomy compared to agencies located in less politically-salient sectors.*

As an alternative to the agency logic, the logic of commitment problem has been used as an explanation for the creation and the level of independence of regulatory agencies (Gilardi , 2005; Jordana & Sancho, 2004; Thatcher, 2005). The argument is related to the rise of regulatory

capitalism as a consequence of market liberalization in economic sectors (Coen & Hérítier, 2005). Many scholars (Christensen & Laegreid, 2006 ;Hérítier, 2005; Gilardi, 2002) have pointed out that, in order to attract investors to newly liberalized markets, governments need to prove credible commitment and time consistency towards the new rules of the game. This is normally done by the creation of an independent regulatory agency, to which a great deal of autonomy is given, and which are (at least to some extent) insulated from political interference in their regulatory decision making. These agencies are in charge of assuring and maintaining a clean competitive market for investors.

Based on the logic of commitment problem a third hypothesis can be formulated.

*H3: Agencies with regulation as a primary task in economic sectors are in charge of assuring that the market in liberalized economy sectors functions with fair and competitive rules and thus, will have higher levels of formal autonomy compared to agencies with other primary tasks.*

It has to be mentioned that liberalization in Latin America and particularly in the countries included in this study also has occurred in more sectors than the economic policy sectors, for instance in health services. In those sectors has been given the possibility for private actors to invest. In that sense, it is possible to extend the credible commitment argument to those sectors and then to the regulation task in general. Therefore, the second hypothesis is:

*H4: Agencies with regulation as a primary task will have higher levels of formal autonomy compared to agencies with other primary tasks.*

## **2.2) Country comparison hypothesis.**

In order to develop a country comparison hypothesis, we first reconstructed what has happened with these two countries in the last decades in order to be able to generate an expectation regarding agencies' formal autonomy. To do that, we first mention what happened in both countries during the 1990s and what happened after the "Chavismo" started to rule Venezuela in 1999.

### **2.2.1) Reforms during the 1990s**

During the 1990s the reforms in Venezuela in Colombia had a similar emphasis. First, both countries during the 1990's liberalized markets and privatized public companies (Sarmiento, 1994; Jaimes, 1996). Second, in Colombia and Venezuela there were several attempts to introduce managerial techniques and output based performance measures (Garcia, 2008). Third, one of the main efforts of both countries was to reduce the public sector expenditure throughout reduction of estate employees and decentralization of functions of the regional levels (CLAD, 1994a, 1994b). Then, there was a restructuration of the public organization landscape through which many organizations were created, eliminated, merged or split (Jaimes, 1996). Finally, there was a tendency towards disaggregation of public organizations. Particularly the establishment of a new organization out of a division or office of a bigger one, mainly a ministry (Garcia, 2008)

### **2.2.2) Reforms during the 2000's**

In Colombia, in 2002 a new government took office and started reforms that sought to reduce the number of organizations. A program aimed to renew the administrative system was launched. The main goal of the reform was to reduce public expenditure as well as to rationalize and renew the public administration (Younes, 2012). Hence a central objective was to reduce the size of the government. During the eight years that president Alvaro Uribe was in office, 44 public organizations were eliminated, 7 were merged, 40 were reformed and 14 new ones were created.

In the case of Venezuela, since 1999 when Hugo Chavez took office, there was a shift in policies towards the left. This meant also a change of policy regarding administrative reforms. There are three major changes that can be highlighted in relation to Venezuela's recent trends of state reform (Brewer-Carías, 2012).

The first element is the increase in the number of ministries, which changed from the 14 ministries that existed in Venezuela in 1999 to 27 in 2006 and to 29 in 2012 (Alvarado, 2006). Partially, this expansion was due to the fact that since 2000 the law that organized ministries in Venezuela gave power to the president to create, eliminate, and merge ministries.

The second element is the creation since 2008 (the year in which a new public administration framework law was issued) of new types of public organizations called "misiones" which do not refer to a fixed particular pre-defined type of public sector organization. 'Misiones' may take rather ad hoc forms, being usually the form of a state foundation. However, they can also take the form of presidential commissions, or even public companies. They function outside the public sector and such organizations are usually created to carry out presidential programs. It has been argued (Brewer-Carías, 2012), that this "misiones" were created to enable president to have a direct control over important government programs without attending to public sector regulations.

The third element is the centralization of the public administration. This process started in 2007 with the establishment of the National Planning Commission, to which all the decentralized organizations both at national and the local level were subordinated. This commission was created to reduce the autonomy of public organizations, to generate a centralized policy towards government function and to reorganize and transform the state companies (Brewer-Carías, 2012). As we would see in the next section, this centralization process is reflected on the reduction of the total number of agencies for the 2011 observation.

All in all, the public sector reforms in Venezuela since 1999 clearly had an effect on the landscape of public organizations, and particularly on their autonomy compared to Colombia.

Therefore, based on the former we can formulate a first hypothesis:

*H5: Based on the evolution of state structure in Colombia and Venezuela it can be expected that agencies in Colombia will have higher levels of formal autonomy than in Venezuela*

### **3) Methodology**

#### **3.1) Data collection**

For data collection we mapped public sector agencies in a similar manner as the Mapping the Irish State' database does it (Hardiman, MacCarthaigh, & Scott, 2013). We used annual budget breakdown as our main source, and we mapped and coded the landscape and characteristics of agencies in Colombia and Venezuela for the years 2000, 2005 and 2011. This time span was inspired by the changes in policies that both countries experienced since 2000, which we expect to take effect after 2000 and to be visible in the data from 2005 and 2011. The year 2011 was the last year for which we could obtain data for both countries.

The mapping was done only for national level agencies. Agencies with only regional presence and regional activities were not included because they might introduce potential bias, they are many and tend to have the same characteristics. Additionally, ministries and departments, universities and public hospitals were not included.

At the end of the mapping process, we coded 99 Colombian agencies for 2000, 86 for 2005, and 85 for 2011. In the case of Venezuela, we coded 82 agencies in 2000, 119 agencies in 2005 and, 111 agencies in 2011.

For each agency we mapped the type, task, policy sector and the governance structure. The type and governance structure were coded to be proxy of agencies' autonomy, and the task and policy sector were coded to test the hypotheses. To map the type of agencies in a standardized manner we drew on the classification made by Rob Laking in the OECD Journal of Budgeting (2005) and the COBRA network (Verhoest et al. 2012). Agencies, according to these authors, can be classified in three categories: departmental agencies, public law administrations, and private law bodies. The latter makes reference to the agencies which function under private law and can be further subdivided into state companies and public foundations (Verhoest. et al., 2012). Due to the extensive amount of private law bodies encountered, we only included agencies, which function under public law: departmental agencies, and public law agencies.

Departmental agencies, also called Type 1 agencies in this study, are those that are part of a parent ministry. Although they do not have separate legal identity apart from this ministry, they do have a separate internal governance. Public law agencies, also called Type 2 agencies in this study, are those agencies that have a separate legal identity vested in public law. The fundamental characteristic of these agencies is that they can legally function on their own without the intervention of the ministry. This type of agency will be used as a measure of formal autonomy in this study (see further below), with type 2 agencies implying more formal autonomy than type 1 agencies.

The governance structure makes reference to the fact that an agency has or not a governing board which is above the agency head. The existence of a governing board helps to shield agencies from

political interference, since there is a hierarchical layer between the parent ministry and the agency manager. Thus, the existence of a governing board gives an idea about the formal autonomy of an agency. This indicator was simply coded by looking if whether agencies had or not a governing board.

To classify the different tasks, we draw on the classification used by the Comparative Public organizations COBRA database. These sources distinguish between five types of tasks: (1) regulation, scrutiny and inspection; (2) policy formulation; (3) general public service delivery; (4) exercising other kinds of public authority (payment of subsidies, collection of taxes, arbitration) and (5) business and industrial services.

The policy sector component was classified according to the United Nations Classification of the functions of the Government (COFOG). COFOG distinguishes between 10 different types of sectors. However, to simplify our analysis we have reduced these ten policy sectors to three: welfare and social policy sector (which includes, housing, health, recreation and culture, education and social protection), economic policy sector and other policy sectors (which include general public services, defence, public order and safety and environmental protection) (Verhoest et al. 2010). To see a more detailed explanation of the classification of agency task and policy sector see annex 1.

### **3.2) Data Analysis**

To operationalize formal autonomy of agencies we use two indicators which are based on Verhoest et al. (2004). They distinguish six dimensions of autonomy: managerial, policy, structural, financial, legal, and intervention autonomy. Our first indicator is a proxy of the legal dimension of autonomy and it tries to capture the formal legal distance of agencies from central government. Legal autonomy refers to the legal protection that agencies have from parent ministries that, who may alter their decision-making competences. Particularly, it is about how easy or difficult ministers can intervene or modify agencies.

The second indicator of formal autonomy is a proxy of structural autonomy and it is based on the governance structure of agencies (Verhoest et al. 2004). This dimension makes reference to the presence of bureaucratic and hierarchical layers between the government and the agency functioning, particularly the existence of a governing board which functions as a shield against political interference. In this point it must be said that the composition and the manner how a governing board is appointed have an important effect regarding its capacity to provide autonomy to an agency. However, we suggest that having a governing board by itself influence agencies autonomy. Particularly because it generates an extra decision making point and is composed by more than one member, which implies that the decision making power is diffused in more than one person and its harder to intervene.

Since there are two different indicators of formal autonomy we run the analyses independently with two different dependent variables. For the first analysis, the dependent variable is the level of legal autonomy of agencies. This was operationalized by the agency type with a dummy variable

that takes the value of 0 by departmental agencies and 1 by public law agencies. In the second analysis, the dependent variable was the level of structural autonomy which was operationalized by looking at the governance structure of the agency, with a dummy variable that takes the value of 1 when the agency has a governing board and 0 when it does not.

Some studies have shown that, *de facto* autonomy may be different from formal autonomy (see e.g. Maggetti 2007). Since we only focus on formal autonomy we do not attempt to make conclusions regarding the *de facto* autonomy of agencies.

To answer our first descriptive research question we graphically reconstruct the recent trends in agencies' autonomy in Colombia and Venezuela. In order to answer our second explanatory research question and test the different hypotheses we conducted binary logistic regressions analysis., In order to conduct these analyses properly, we tested for multicollinearity and heteroscedasticity, which were not present along the variables.

The operationalization of the theories was made by applying indicators that have been used and validated by previous research (Yesilkagit & Christensen, 2009; Jordana & Levi-Faur, 2005). The operationalization of the rational choice variables was made based on the commitment problem logic and the agency problem logic. This is done in such manner due to the fact that these two logics affect agencies' formal autonomy by influencing their design.

We operationalized the rational choice institutionalism as follows: For the agency problem hypotheses we created a dummy variable which takes the value of 1 for agencies with 'general public services' as the primary task. The reason for doing this is that among the different agencies task 'general public services' is the one which presents a higher measurability (Rubecksen, 2004; Falke & Verhoest, 2006). We additionally operationalized the agency problem by creating a dummy variable with the value of 1 for agencies in the welfare and social policy sector and the value of 0 for other policy sectors.

The commitment logic is operationalized by two dummy variables. The first takes the value of 1 for agencies that have regulation as their primary task. The second dummy variable takes the value of 1 for agencies in the economic policy sector. As we discussed before, the commitment logic is mainly related to agencies with regulatory tasks in the economic sector ,we included an interaction term for the two dummy variables. By doing this we try to capture the effect of regulatory agencies which are located in the economic sector.

For the country comparison hypothesis we have included in both analysis a country dummy variable which takes the valued of 0 for Colombian agencies and 1 for Venezuelan agencies. We included this variable in other to test the country difference regarding formal autonomy and to see the relevance of political internal dynamics.

In order to be able to conduct the binominal logistic regression analyses we included dummy variables for each observation point. In this manner we are able to combine the different

observations moments in one data set without violating the assumption of independence of the observations, which is necessary to run a logistic regression analysis.

Finally, we included a dummy variable, which captures if an agency was newly created in each observation point or if it was an pre-existing agency. This is done to control for the possibility that the effect encountered regarding agencies' formal autonomy is due to changes in the population of agencies and not changes in formal autonomy. This variable takes the value of 1 if the agency is newly created for that year and 0 if it is an old agency.

Table 1 presents the descriptive statistics of the variables used in this paper. This table shows that in the complete database there are more type two agencies than type one agencies and that there are more agencies in Venezuela than in Colombia. From the other dummy variables, the one that represents the larger amount of agencies is the general public sector dummy variable, with 254 agencies coded with 1.

**\*\*insert table 1 around here\*\***

#### **4) Describing trends in formal autonomy of agencies in Colombia and Venezuela**

In this section, we present graphically the major trends in terms of agencies' formal autonomy in Colombia and Venezuela.. Here we show how the paths taken by the two countries since the start of the regime of Hugo Chavez in 1999 can be seen in the context of agencies formal autonomy.

**\*\*insert Graph 1 about here\*\***

Regarding the total number of agencies, it is possible to see how for the first year (2000) Colombia had more agencies than Venezuela, 99 and 83 respectively. However, in 2005 the relation was inverted with Venezuela having an overall larger number of agencies, 120, compared to 86 in Colombia. In 2011 Colombia had remained rather stable with 85 agencies whereas Venezuela had experienced a decrease to 112 agencies. With respect to the agencies' type, Venezuela presents in all the years a significant larger number of departmental agencies in comparison to Colombia.

In this graph is very clear how the logic of the two countries has been significantly different both regarding the creation of agencies and the type of agency that are created. Whereas in Venezuela there is an expansion of the number of agencies which goes in line with the abovementioned tendency, in Colombia there is rather a reduction in the number of agencies. Furthermore, the type of agencies that are mostly created in Venezuela are departmental, which have less formal autonomy and are closer to the oversight of ministries and departments, compared to Colombia where both public law agencies and departmental ones were created.

**\*\*insert Graph 2 about here\*\***

In Colombia, departmental agencies' task with the largest share is regulation and for public law agencies the task with the largest share is general public services. In the case of Venezuela, for

both types of agencies there is an important increase in agencies having regulatory and general public services tasks. This characteristic may indicate that agencies which are granted with low levels of formal autonomy have been created specially with tasks which are related to the policy preferences of the regime, namely: giving services directly to citizens and regulating private activities. Comparatively, in Venezuela, departmental agencies and public law agencies do not differ significantly in their task, whereas in Colombia the agencies encountered in the two different types show to have different tasks.

In the case of Venezuela it must be said that although there is an increase of agencies having regulation as a main task during the period from 2000 to 2005. This probably is related more to the socialist policy of the government which aims to intervene in the economy rather than with the market liberalization.

**\*\*insert Graph 3 about here\*\***

For Colombia, it is possible to see that in 2005 the number of departmental agencies in the welfare and social policy sector and the other policy sectors group had an important reduction. For 2011 there was an increase in the welfare and social policy sector and a reduction in the other sectors. Regarding public law agencies from 2000 onwards, we observe an increase of agencies in the economic policy sector. Overall the landscape of agencies in Colombia related to policy sectors has remained stable compared to Venezuela.

In Venezuela, there are two clear tendencies in this graph: First, there is an important increase of agencies in the economic policy sector among the public law agencies' group, which goes in line with what we have said regarding the increasing number of agencies devoted to act in economic matters. Second, there is an important increase of the group of departmental agencies active in the other policy sectors, which relates to an increase in core government and defence agencies<sup>2</sup>.

## **5) Explaining formal autonomy of public sector agencies in Colombia and Venezuela**

In this section we attempt to test if the rational choice institutionalism theory is capable to explain agencies formal autonomy in Colombia and Venezuela, despite of the differences highlighted above. Thus, we are interested in observing a common underlining rationality for agencies' formal autonomy that applies to both countries.

Table 2 presents the results for the logistic regressions on the joint sample of agencies in Colombia and Venezuela with the type of agency as a dependent variable. The dependent variable aims to compare public law agencies (type 2 – value 1) with departmental agencies (type 1 – value 0). The year dummy variables were included to control for the possible time effects. Table 2 presents three different models: the first one neither includes the newly created agency dummy variable nor the interaction terms. The second model does includes the interaction terms and not the newly created agency dummy. The third model includes both the interaction term and the newly created agency dummy. The reason to present a model without the interaction term is to be able

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<sup>2</sup> See the categorization of policy sectors made in section 3

to really grasp what the effect of including the interaction is. The reason to include the newly created agency dummy in only one model is that in the case of Venezuela we do not have data before the year 2000. This means that we do not know if the agencies that existed then were newly created or old agencies, therefore when we include that variable we lost the data of Venezuela for the year 2000.

**\*\* insert table 2 about here\*\***

In the first model, besides the country dummy variable, the dummy variable welfare and social policy sector, the interaction term and the economy sector dummy were found significant. The country dummy variable and the interaction term show a negative effect, and the welfare and social sector and the economic sector dummy had a positive effect. In the second model four variable proved to be significant: the welfare and social sector dummy, the economic sector dummy, the regulatory task dummy and the country dummy. All but the economic sector dummy with a negative effect. Finally, in the third model, five variables were found significant: the welfare and social sector dummy with a positive effect, the interaction term with a negative effect, the economic sector dummy with a positive effect, the country dummy with a negative effect and the dummy for year 2000 with a negative effect.

This means that both in Colombia and Venezuela, regulatory agencies which are located on the economic sector are more likely to have low levels of formal autonomy (model 1 and 3). Furthermore, in model 2 where we did not include the interaction terms, the regulatory dummy variable had a negative effect. However, the economic sector dummy in all models turn to be significant with a positive effect. This means that agencies that are located in the economic sector tend to have formal autonomy except when they have regulatory tasks.

Table 1 also show that agencies located in the welfare and social policy sector are more likely to have high levels of formal autonomy. This results are constant in the three models.

These results present a mixed picture. First, they contradict the commitment logic (particularly hypothesis 3) as there is evidence that regulatory agencies in the economic policy sector tend to be *less* type 2 agencies (more formal autonomy) than type 1 agencies (less formal autonomy) thus, hypothesis 3 is rejected. Furthermore, there is no support for the other commitment logic hypothesis, hypothesis 4, which predicts to observe more type 2 agencies compared to type 1 agencies when regulatory tasks are considered beyond the economic policy sectors. This means that regulatory tasks by itself do not affect the likeliness of having more or less legal autonomy, it only has an negative effect when combined with the economic policy sector. The positive effect of the dummy variable 'welfare and social policy sector' contradicts one of the agency logic hypotheses, particularly hypothesis 2, which predicted to observe more type 1 agencies in the welfare and social policy sector. Hypothesis 1 had no statistical support in any model. Finally, the negative significance of the country dummy variable suggests that agencies in Colombia are more likely to have higher levels of formal autonomy than in Venezuela confirming for all models hypothesis 5 and the important role of the internal political dynamics of each country to determine agencies' formal autonomy

Finally, it must be said that neither the dummy variables for each observation point nor the dummy variable for newly created agencies were significant in models 1 and 2. In the case of model three only the dummy variable for the year 2000 was significant, and this could be explained by the fact that for that year there was only data for Colombia in the model (see section 3.2). The non-significance of these variables shows that the results found in the analysis are not due to time effects or to changes in the agencies' population. Regarding the explanatory power of the different models, table 2 shows that has the largest explanatory power is model 3, which includes all the variables. This is represented by the Pseudo R2, which represents the explanatory power of the models and the Log likelihood, which represents the reduction in the error in each model.

Table 3 presents the results of the analysis using as dependent variable the dummy variable which accounts for existence or not of a governing board in each agency. The dummy variable takes the value of 1 if the agency has a governing board and 0 otherwise. This variable refers to the structural autonomy of agencies as an element of formal autonomy.

**\*\* insert table 3 about here\*\***

Table 3 shows that in the first and second models three variables were significant, the dummy variable for welfare and social sector (with positive effect), the regulation dummy variable with a negative effect and the economic sector dummy with a positive effect . This means that for that model the results show that agencies in the welfare and social sector and in the economic sector were more likely to have a governing board and agencies with regulatory task were less likely to have one. In the third model, another variable prove to be significant: the general public service dummy variable with a positive effect.

Therefore, it means that in model three agencies that are located in both welfare and social and economic policy sectors and agencies that have a general public sector task are more likely to have a governing board.

These results again contradict the agency logic, particularly hypothesis 2 which predicted less formal autonomy in welfare and social sectors. In fact the constant positive effect of the welfare and social sector dummy variable throughout the three models show that on the country of what it was hipotized , agencies in that sector tend to have more structural autonomy, represented by their governing board. Regarding the commitment logic table three shows some counter evidence, particularly the significant negative effect of the regulation dummy contradicts hypothesis 4, where we expected to find a positive effect. Similarly than in table 2, the results show that there is not effect due to time or changes in agencies population.

There are significant differences between the two analyses, which indicate that the factors that affect the legal autonomy of agencies are not necessarily the same factors that affect the structural autonomy of agencies. The only constant effect in both analyses is that agencies that are located in the welfare and social sectors are more likely to both being public law agencies and having a governing board, thus they have more formal autonomy. Furthermore, some of the

crucial findings in the first analysis do not hold when explaining whether or not agencies have a governing board. The interaction between regulation and economic policy sector was not significant in any of the models. The country dummy variable was not significant in the second analysis suggesting that hypothesis 5 do not hold for structural autonomy but only for legal autonomy.

## **6) Discussion and conclusions**

The main result regarding recent trends in agencies' formal autonomy in Colombia and Venezuela is that the differences between the two countries have increased since the year 2000. In Venezuela there has been an increase in the total number of agencies, whereas in Colombia there has been rather a decrease followed by stability. Particularly, this is visible regarding the number of agencies that are granted with low levels of formal autonomy. Additionally, our mapping results suggest that there is a possible relation between the task and policy sector in which agencies are active and the policy preferences of governments. In the case of Venezuela, this can be seen in the increase of number of agencies that provide direct services to citizens, agencies that are located in economic sectors, that have regulation as their main task, and that are involved in defence tasks. These are all key policy activities and sectors for the regime..

The results of the binary logistic regressions can be grouped in two different patterns of results:

- Constant pattern: hypotheses that show a constant result (supported or rejected) in all the different models and, thus, their effect can be fully accepted.
- Dual pattern: hypotheses in which the extent of support presents two distinctive patterns (e.g. hypotheses that are supported on one of the models and are rejected in other model).

The results based on the proposed five hypotheses are summarized in table 4.

When comparing the patterns presented in table 2 and 3 with the initial theoretical framework proposed to explain agencies' formal autonomy the following conclusions can be formulated: First, regarding the rational choice expectations, we found that when it comes to legal autonomy neither for Colombia nor for Venezuela there is evidence that regarding regulation, governments act according to the logic of commitment when defining the level of formal autonomy of agencies. Furthermore the results showed that it is more likely to find agencies with regulation as primary task in the economic sectors with lower levels of legal autonomy. This contradicts one of the main theoretical arguments highlighted by regulatory capitalism research (Coen & Héritier, 2005; Jordana & Lavi-Faur, 2005; Gilardi, 2002) which states that after liberalization of markets governments need to create agencies with high levels of formal autonomy to assure credible commitment and policy time consistency to investors. When it comes to structural autonomy, there is some evidence that goes against the commitment logic, but it does not seem to be as important variable as for legal autonomy.

**\*\*insert table 4 about here\*\***

The agency logic was rejected in all the statistical models. This goes against what has been found by scholars who study agencies' formal autonomy. Particularly, it contradicts, for both Colombia and Venezuela the suggested relation between measurability of task and formal autonomy, only model three (when it comes to structural autonomy) proved some support for this hypothesis (Wilson 1989; Ter Bogt 1998; Williamson 1985; Van Thiel 2001) as well as the idea that high political salience is related to low level of formal autonomy (Pollitt, 2004; Krause, 2003). Furthermore, the expected relation between high political salience and low levels of formal autonomy was rejected throughout both the legal autonomy and the structural autonomy models.

Regarding the comparison hypothesis, we found that the expected differences between Colombia and Venezuela were encountered regarding legal autonomy. Colombia does tend to have agencies with more formal autonomy than Venezuela. This provides statistical evidence for the effect of the policy preferences of Venezuela over agencies' formal autonomy. This however, only holds for legal autonomy and not structural autonomy.

The latter shows that legal and structural autonomy are not necessarily explained by the same factors, and therefore an agency can have one the other or both types of autonomy.

Concerning theory, this research has shown that, for the cases of Colombia and Venezuela, politicians to some extent do pay attention to rational considerations such as agencies' task and policy sector in order to decide the level of formal autonomy given to agencies' when they are designed. However, the unexpected encountered relations provide some indication-that rational choice theories may not fully apply for development countries.

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Annex 1 detailed coding scheme

**Table 5 simplifying task coding**

<b>COBRA</b>	<b>COST/ISAD</b>
1) Policy formulation	Policy formation and advice to ministers
2) Regulation	Regulation, scrutiny and supervision
	Quality evaluation, certification, and accreditation
	Registration, licenses and permits
3) Exercising other kinds of Public Authority	Payment of subsidies, financial transfer
	Collection of taxes, contributions and fines
	Arbitration
4) General Public Services	Direct service delivery to citizens
	Information provision to citizens
	Research training and education
	Maintenance
	Support service to other public organizations
5) Business and Industrial Services	Commercial industries
	Contracting developing service specifications or capital projects for tendering

Table 6 simplifying policy sector coding.

<b>Simplified Policy Sector</b>	<b>Detailed Policy Sector based on Cofog</b>
welfare and social policy sector	Housing and community amenities
	Health
	Recreation, culture and religion
	Education
	Social protection
Economic policy sector	Economic affairs
Other policy sectors	General public services
	Defence
	Public order and safety
	Environmental protection

Table 1 descriptive statistics of the data

Variable	Minimum	Maximum	Mean	Standard Deviation	Frequency		N
Social Welfare Dummy	0	1	0.3694	0.48306	1: 215	36.9 %	582
					0: 367	63.1 %	
Economic Sector Dummy	0	1	0.2732	0.44598	1: 159	27.3 %	582
					0: 423	72.7 %	
Regulatory Task Dummy	0	1	0.3179	0.46605	1: 185	31.8 %	582
					0: 397	68.2 %	
General Public Sector Dummy	0	1	0.4364	0.49637	1: 254	43.6 %	582
					0: 328	56.4 %	
Agency Type 2 Dummy	0	1	0.64	0.480	1: 374	64.3 %	582
					0: 208	35.7 %	
Agency newly created Dummy	0	1	0.26	0.437	1: 128	25.6 %	500
					0: 372	74.4 %	
Country	0	1	0.5361	0.49913	Col: 270	46.4 %	582
					Ven: 312	53.6 %	

Table 2 results of the binary logistic regression Colombia and Venezuela, using type of agency as dependent variable.

Variables	Model 1***		Model 2***		Model 2***	
	B	RSE	B	RSE	B	RSE
Welfare and Social Sector	1.1740***	0.2238	1.1404***	0.2273	1.1152***	0.2420
General Public Services	-0.2131	0.2340	-0.2103	0.2303	-0.0851	0.2615
Regulation*Economic sector	-2.1640***	0.5163			-2.2670***	0.6249
Regulatory task	-0.3554	0.3170	-1.022***	0.2656	-0.5345	0.3352
Economic sector	1.94936***	0.3876	0.7920***	0.2445	2.2747***	0.5124
Country	-1.3195***	0.1978	-1.372***	0.9980	-1.4554***	0.2541
Year 2000	-0.3676	0.2451	-0.2950	0.2393	-0.5716*	0.3319
Year 2005	-0.3222	0.3471	-0.7977	0.2259	-0.0926	0.2417
Agency newly created					-0.2300	0.2558
N	582		582		500	
Pseudo R2	0.14		0.12		0.16	
Log pseudolikelihood	-333.4537		-333.7822		-267.9016	

\*\*\*p<0.001, \*\* p<0.05, \*p<0.1 RSE: robust standar error

**Table 3. Results of the binary logistic regression Colombia and Venezuela, using the existence of a governing board in the agency as dependent variable.**

Variables	Model 1***		Model 2***		Model 3***	
	B	RSE	B	RSE	B	RSE
Welfare and Social Sector	1.1530***	0.2242	1.1501***	0.2256	1.1833***	0.2438
General Public Services	0.2585	0.2385	0.2557	0.2380	0.5478**	0.2577
Regulation*Economic sector	-0.2319	0.4270			-0.9657	0.4581
Regulatory task	-0.7814**	0.2896	-0.865***	0.2486	-0.6981**	0.3076
Economic sector	0.7532**	0.3104	0.6421***	0.2333	0.7704**	0.3368
Country	-0.5043	0.1882	-0.6088	0.1884	-0.3198	0.2367
Year 2000	-0.1154	0.2350	-0.1066	0.2348	-0.0910	0.2914
Year 2005	-0.0175	0.2242	-0.0116	0.2238	0.0165	0.2295
Agency newly created					-0.1761	0.2530
N	549		549		482	
Pseudo R2	0.084		0.083		0.094	
Log pseudolikelihood	-335.3937		-335.5463		-291.4953	

\*\*\*p<0.001, \*\* p<0.05, \*p<0.1 RSE: robust standar error

**Table 4. Summary of the explanatory findings**

Hypotheses	Model	Pattern	Interpretation
H1: More formal autonomy in agencies with easy to measure task	Legal Autonomy	Constant (rejected)	. There is only evidence in model three that agencies with tasks that are easy to measure have higher levels of formal autonomy.
	Structural Autonomy	Dual rejected in model 1 and 2 supported in model 3	
H2 Less formal autonomy in agencies located in welfare and social sectors	Legal Autonomy	Constant (rejected)	The pattern showed by graph 3 (both in Colombia and Venezuela agencies located in the welfare and social policy sector have more formal autonomy) is supported by the explanatory analyses There is constant significant increase of public law agencies in the welfare and social policy sector in Venezuela (graph 3)
	Structural Autonomy	Constant (rejected)	
H3: More formal autonomy in agencies with regulatory task in the economic sector	Legal Autonomy	Constant (rejected)	Regarding legal autonomy The pattern showed by graph 2 (both in Colombia and Venezuela agencies with regulation as primary task have less formal autonomy) is supported by the explanatory analyses. In Venezuela under Chavez many regulatory agencies are created to control and intervene in the economy. Thus it is logic that these agencies are closer to the oversight of ministries Regarding structural autonomy, there is no evidence of any effect.
	Structural Autonomy	Constant ( rejected)	
H4: Agencies with regulation as a primary task will have higher levels of formal autonomy.	Legal Autonomy	Dual ( in model 1 and 3, rejected in model 2 rejected)	Regarding legal autonomy there is no evidence that regulatory task (in broad sense) affects legal autonomy Regarding structural autonomy in the three models there is evidence that agencies with

	Structural Autonomy	Constant rejected	regulatory task had less structural autonomy.
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