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**PROBLEMS AND PERSPECTIVES OF PUBLIC ADMINISTRATION REFORM:
THE CASE OF THE EXECUTIVE BRANCH OF THE GOVERNMENT OF
MONGOLIA**

Batbayar Badamdorj

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Comments are welcome and should be addressed to the author:
c/o Publications Office - Institute of Social Studies - P.O. Box 29776
2502LT The Hague - The Netherlands

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Chapter One: INTRODUCTION

1.1. Background information

Mongolia is the 6th largest country in Asia, and the 18th largest in the world. Surface area of Mongolia is 1.566.500 square km. However, Mongolia has only 2.3 million people and is one of the lowest population densities in the world: 1,5 inhabitants per 1 sq.km. The main ethnic group (85%) is Mongol, mostly Khalkha Mongol. There are also Turkic, mainly Kazakh (7%), Tungusic (4,6%) and other groups (3,4%). Literacy rate is very high, in excess of 80%.

Mongolia is completely landlocked country between two large neighbours - Russian Federation and China. Average altitude is 1.580 m above sea level. Temperatures swing from extreme cold in winter to warm summers. Coldest month is January and average temperature is minus 35°C. Warmest month is July and average temperature is plus 25°C.

Mongolia's economy is relatively diversified. The agricultural sector (including livestock) accounts for more than a third of GDP. Livestock comprises three-quarter of agricultural value-added (meat, hide, wool and cashmere), while crops make up the rest (wheat and vegetables for domestic consumption). Industry accounts for 36% of GDP, and includes mining (earning half of all foreign exchange), processed wool, cashmere, leather, and food (mostly meat and dairy products), and construction materials.

Mongolia has a parliamentary type of Government (see Annex No.1). Mongolia is a unitary state, the territory of which is divided into administrative units such as capital city and aimags, with further division of aimags into soums, soums into bags, capital city into districts, and districts into horoo. There are 21 aimags in Mongolia.

In 1990 democratic elections were on a multi-party basis for the first time in the history of Mongolia. The outcome was promulgation of a new Constitution. In 1992 the second democratic elections again gave victory to the Mongolian Peoples Revolutionary Party (MPRP), which had ruled the country since 1921. This time the MPRP swept back into power, winning 71 of the 76 total seats. However, the victory of former communists did not lessen economic or political reforms. The momentum of reform continued and the Democratic Union Coalition opposition swept to power in June 1996, winning a remarkable 50 of the 76 seats, just one seat short of a complete quorum. The MPRP were reduced to 25 seats. The political situation in Mongolia is stable. The guarantee of stability are the new Constitution, the increasing number of supporters of democratic and economic reforms, as well as the tolerant and consensus nature of Mongolians.

1.2. Context of the study

Mongolia, the world's second oldest communist nation, is currently in the transitional phase from a centrally planned command economy to a market economy in a democratic society. After the "democratic revolution" in 1990, profound changes have taken place in Mongolia as a result of the economic and political reform processes. These include the discontinuation of a one party centred political system and of centralized economic planning, as well as the privatization of a nearly totally state economy.

The transformation has led to the discontinuation of the most fundamental aspects of the political and administrative systems of the previous command economy. However, this in and of itself has not led to the creation of the public administration required for the transition period.

This transition process requires strong and effective leadership. The role of government in the transitional process is essential inasmuch as the private as well as voluntary sectors are weak and incipient. A more effective (but not necessarily a big) public administration can reduce the time and costs required to successfully undertake the transitional process in Mongolia.

However, despite profound political and socio-economical changes taken place heretofore, the public administration remained the same until recently. The organization and activities of all levels of the former public management institutions were no longer appropriate for attaining the goals of the reforms in all spheres of economic, social and political life. This finds its expression in the lowering of the prestige of all state institutions, their inefficient and non-operational activities, and also the ineffectiveness of Mongolian legislation and decisions of public institutions, as well as those of management institutions at all levels. The existing laws, procedures and rules, needed for regulating the activities and legal status of public institutions and government employees were insufficient. There was the lack of a coherent civil service personnel policy. Professional skills of a majority of government employees were much lower than the requirements.

The lack of public administrative mechanisms able to replace the party-centered system at the initial stage of the transition period led to a weakening of Government's leadership and regulating activities. For instance, national capacity has been reduced in the areas of policy and planning due to the abolition of planning mechanisms as part of the discontinuation of central planning. However, market economy policy and planning mechanisms have not replaced the previous systems. This was evident in the lack of a development plan, co-ordination between global policy institutions, co-ordination between global and line ministries, and weaknesses in such areas as the public investment plan as well as in aid co-ordination and management. "It is wrong to presume that a free market will develop overnight if central planning is eliminated and the market freed. Scrapping the central planning system is obviously a necessary step toward the evolution of a market economy, but unless existing institutions can readily be converted to facilitate production and distribution under market conditions, the transition process will be difficult and lengthy" (Rana 1995:1168).

Another factor was the lack of role definitions and functional specifications in the new circumstances. This was particularly apparent in two key areas. The first are the relations between the public and private sectors. The second concerns the relations between the central administration and local administration. It is clear that the public/private sector interface operates within the context of the central/local administration interface.

It was obvious that the systems, procedure, structure, organization and staffing of public institutions have become inappropriate in the new environment. Thus there was a natural demand in Mongolia to formulate and implement policies that reform the organization and activities of the civil service and public management.

1.3. Statement of the Research Problem and Questions

As mentioned in previous section, despite profound political and socio-economical changes, the public administration remained the same and the demand for reform of public administration system was high.

In this context the Parliament of Mongolia has approved the “Mongolian State Policy on Reforming Government Processes and the General System of Structure” (hereinafter referred to as “Policy Paper”) which became the official guideline for public administration reform in Mongolia. The Policy Paper was elaborated on the basis of the proposals on public administration reforms prepared by the Government of Mongolia in conjunction with the United Nations Development Programme (UNDP). The public administration reform process has begun in Mongolia. The new government, elected in June 1996, started to implement the Policy Paper immediately. Only 9 ministries were established replacing previous 13 ministries. The position of State Secretaries was introduced for the ministries. New regulatory and implementing agencies were established. Some elements of government common service system were introduced anew. Business plans and a new structure for the ministries were elaborated.

However, recently the government decided to stop implementing the Policy Paper and to revise its design before going further. A New Strategy for the public administration reform is emerging. This time, the New Zealand model is going to be introduced to the Mongolian public administration. It was recommended by IMF experts and became a part of Structural Adjustment Program in Mongolia for 1997-2000.

The scope of the Policy Paper was much more broad and comprehensive covering almost all aspects of public administration. But this New Strategy mainly emphasizes finance and accountability aspect of public administration. Moreover, it appears that the design of this new policy is based mainly on the knowledge and experiences of New Zealand and the designers did not adjust their model to Mongolian environment which is totally different from that of New Zealand. Thus, some problems could arise during the process of implementation.

Therefore, there is a need to critically analyse the policy, both previous and new, on public administration reform in Mongolia in terms of content and process and to analyse the relevance of the methods and approaches used in the implementation process of public administration reform.

In this connection, I would like to address, among the others, the following research questions:

- What are the main principles of the previous policy (Policy Paper)?
- What was the reason of changing the orientation of public administration reform?

- What is the content and theoretical background of new policy (New Strategy)? What implicit philosophy is behind it?
- Which strategy is going to be used for the implementation of New Strategy?
- Which problems can likely arise during the implementation of New Strategy?
- Which measures could be taken for successful implementation of New Strategy?

It is hoped that the result of this research will be taken into consideration by the implementors of the reform policy in Mongolia. The result could also stimulate further research in this field. The Case of Public Administration Reform in Mongolia can be interesting especially for those countries that are in the transition period and currently undertaking similar reforms.

1.4. Objectives of the Study

The main objective of this study is to do a pre-implementation analysis of the New Strategy of public administration reform in Mongolia. To achieve this main objective, the following sub objectives would be addressed:

- to analyse the content of public administration reform policy and its relevance and feasibility for Mongolian environment;
- to analyse the strategy of implementation and problems likely to be faced in the implementation of the reform policy;
- to suggest recommendations on preventing the problems.

1.5. Theoretical Framework for Analysis

This is the case where we have a problem, but do not have an adequate theory. There is as yet no tested, operationalised theory of administrative change in transitional societies. Therefore, I will use analysis of discussions of *general theories* of public administration reforms based on experiences of developed and developing countries; and policy discussions on public administration reforms in *transitional societies*.

The main concept to be considered for the analysis of content of reform will be that of the New Public Management (NPM). The main features of NPM and its component theories such as public choice theory, agency theory and transaction-cost economics, as a theoretical basis of the reform policy, will be discussed in detail.

For the analysis of process of reform, the strategy of administrative reform developed by Dror (1976) will be used. There is a rich literature on theoretical aspects of administrative reforms as well as actual experiences of many developing and industrialized countries in success and failure of such reforms. Dror's contribution on this subject captures the essence of this literature.

Since the Government of Mongolia is going to introduce the New Zealand model of public management, New Zealand's approach as embodiment of NPM philosophy will be presented. The main features of public administration reforms in transitional societies will also be discussed to draw contrast and comparison.

1.6. Methodology

This research is a policy oriented research. It intends to analyse the content of New Strategy on Mongolian Public Administration Reform using the prescriptions of New Public Management concept and their relevance to the Mongolian condition. It also attempts to analyse the process of implementation of the New Strategy through the strategy of administrative reform developed by Dror. In doing so, experiences of public administration reforms in New Zealand and transitional societies will be considered. The actual experience of earlier reforms introduced under UNDP auspices, will also be used to assess the new measures.

The main sources of data are both primary and secondary. Books, journals, magazines, official and project documents, newspaper articles, research paper sources, interviews with some actors of public administration reform process in Mongolia and practical experience in the Mongolian Civil Service are used.

1.7. The limits to the research work

The main limit to this research work is the newness of the field and lack of an acceptable theoretical framework of planned process of transition from socialist to market economy as applied to public administration system. Public administration reforms in transitional societies are the quite new phenomenon and can be a new field of study for scholars. Since the systematic studies of public administration reforms in Mongolia have not been done yet, there are very few sources of data on historical background of public administration reform processes in Mongolia. This reform process has not finished yet and therefore, the research will be limited by a pre-implementation analysis. However, implementation experiences of other countries will be used to see what can be learnt from that.

The scope of the research paper is defined by both the organizational entities and various public administration functions and processes. Government entities are restricted primarily to the Executive Branch of the Government of Mongolia plus related entities, while functions and processes encompass the full scope of government programs, services and supporting administration and operations.

Chapter Two: THEORETICAL FRAMEWORK FOR ANALYSIS

This chapter presents the conceptual framework for the study of administrative reform, namely, the New Public Management concept and its main component theories as a framework for the analysis of content of the reform policy, and the theory of strategy of administrative reform as a framework for the analysis of process of implementation. The chapter also considers experiences of public administration reforms in New Zealand and some transitional states.

2.1. The New Public Management Concept and Its Main Component Theories

The ideas of the older managerialist tradition have been influenced by agency theory, other aspects of modern institutional economics, including public choice theory and transaction-cost economics. The resulting convergence of intellectual currents has produced so-called 'New Public Management' or NPM. The main features of the NPM are the following:

- a) a belief that, at least from the standpoint of management, the differences between the public and private sectors are not generally significant; hence public and private organisations can, and should, be managed on more or less the same basis;
- b) a shift in emphasis from process accountability to accountability for results (e.g. a move away from input controls and bureaucratic procedures, rules, and standards to a greater reliance on quantifiable output measures and performance targets);
- c) an emphasis on management rather than policy;
- d) the devolution of management control coupled with the development of improved reporting, monitoring, and accountability mechanisms;
- e) the disaggregation of large bureaucratic structures into quasi-autonomous agencies, in particular the separation of commercial from non-commercial functions and policy advice from service delivery and regulatory functions;
- f) a preference for private ownership, contestable provision, and the contracting out of most publicly funded services;
- g) a shift from relational to classical modes of contracting (e.g. from long-term and generally poorly specified contracts to shorter-term and much more tightly specified contracts);
- h) the imitation of certain private sector management practices such as the use of short-term labour contracts, the development of strategic plans, corporate plans, performance agreements, and mission statements, the introduction of performance-linked remuneration systems, the development of new management information systems, and a greater concern for corporate image;
- i) a preference for productivity related monetary incentives rather than non-monetary incentives, such as ethics, ethos, and status; and
- j) a stress on cost-cutting, efficiency, and cutback management (Boston et al. 1996:26).

Of course, many of these ideas have a long pedigree, some having their origins in the nineteenth century and the pioneering work of F.W.Taylor - the founder of 'scientific' management. What is new about the NPM is the way in which these ideas have been combined, the manner of their implementation and the vigour with which they have been pursued.

Public Choice Theory. The central tenet of the public choice approach is that all human behaviour is dominated by self-interest. Individuals are rational utility maximisers (*ibidem*:17).

"Hence, just as businesses supposedly seek to maximise their profits, government officials are believed to maximise their departmental budgets, while politicians seek to maximise their votes". "Politicians will pursue their own particular objectives at the expense of many of their constituents. Interest groups will engage in rent-seeking behaviour to the disadvantage of the wider community. And government officials, in their attempts to expand their budgets, will acquire an ever-increasing quantity of resources. As a result, the state will grow well beyond what is necessary to guarantee national security, maintain law and order, and satisfy voter preferences. Powerful interest groups will capture a disproportionate share of national income. And institutional rigidities will be created, thereby reducing economic growth.

Such analysis have led many public choice theorists to endorse political agendas like minimising the role of the state, selling the state's commercial assets, curbing the functions of government agencies, and etc. Further, because politicians can be expected to abuse their power, it is argued that they should be prevented from running budget deficits or imposing taxes beyond a certain level. Similarly, because departments have a vested interest in their own survival, they should not both tender advice and implement policy. Otherwise, their advice will be biased and bureaucratic capture might occur. Finally, all services provided by the state should be made as contestable as possible" (*ibidem*:18).

Agency Theory. "Agency theory rests on the notion that social and political life can be understood as a series of 'contracts' (or agreed relationships) in which one party, referred to as the principal, enters into exchanges with another party, referred to as the agent. In accordance with such contracts, the agent undertakes to perform various tasks on behalf of the principal and in exchange the principal agrees to reward the agent in a mutually acceptable way" (*ibidem*:18-19).

Agency theory also assumes that individuals are rational, self-interested, utility maximisers. Hence, the interests of agents and principals are bound to conflict. A good deal of agency theory is concerned with determining the optimal form of contracting, including the best way of motivating agents.

Agency theory is useful in analysing a range of policy issues, particularly those concerned with the selection of agents, the design of remuneration systems (e.g. output-based versus input-based reward systems, direct incentives like piece-rates versus indirect

incentives like career structures, etc.), and the choice of institutional arrangements (e.g. in-house provision versus contracting out).

Transaction - Cost Economics. Transaction -cost economics (TCE) deals largely with the optimal governance structures for various kinds of transactions, in particular the best way of organising the production and exchange of goods and services. Its central focus is the exchange of physical goods.

TCE assumes that principals and agents are opportunistic. As a result, the parties to a contract might be unreliable, and might engage in rent-seeking behaviour and other forms of self-interested behaviour (cheating, shirking, lying, deceiving, promise breaking, the incomplete or distorted disclosure of information, etc.). The danger posed by opportunism will depend on the *willingness* and *capacity* of the contracting parties to pursue private gain. Whether individuals are *willing* to act opportunistically will no doubt be influenced, at least in part, by their normative commitments and values system. Hence, where shirking or cheating are regarded as acceptable forms of behaviour, they are more likely to occur. The *capacity* of principals and agents to behave opportunistically, on the other hand, will depend on a range of structural or environmental conditions. They include the degree of uncertainty and the existence of information asymmetries, bounded rationality, asset specificity, and small-numbers bargaining (*ibidem*:21-22).

The combined impact of these theoretical concepts derived from neo-classical economics, has been a world wide movement, providing an alternative theory of state intervention and governance. This thinking is also behind the WB/IMF initiated civil service reforms.

2.2. Strategy of Administrative Reform

Administrative reform is a process that can and should be directed and controlled by a strategy. Many administrative reforms have failed due to excessive reliance on formal measures and neglect of the process aspects, including preparation of the ground for the formal decision and its effective implementation.

The three most essential elements of strategy are (a) determining the desired situation and possible alternatives or variants; (b) determining the means by which this situation should be achieved; and (c) fixing the time dimension, i.e. the period within which the desired situation should be realized (Leemans 1976:46).

Dror (1976:129-141) defined 11 dimensions of strategies for administrative reform as follows:

1. *Overall goals.* Clarification of the overall goals of an administrative reform is a fundamental requisite for success. It is essential in order that the strategies and instruments may be determined. Also, the degree to which the goals are realized is a significant yardstick of the success or failure of the reform. Administrative reforms may have multiple goals. Therefore, it is necessary to give priorities to them.

2. *Reform boundaries.* It is necessary to clarify the boundaries within which an administrative reform is to be confined. In other words, the domain of institutions to be considered as appropriate objects for an administrative reform should be determined.

3. *Preference in time.* There is a difference between a reform which wants to achieve its results immediately, and a reform which wants to have results after a long period of time. Usually, it is desirable to have fast results. However, it will depend on the type of reform goals. External factors like political feasibility and critical survival needs often establish rigid constraints on time availability.

4. *Risk acceptability.* This dimension involves the degrees of risk to be accepted in the administrative reform. The issue is one of readiness to accept the higher risks associated usually with more innovation, or whether one prefers lower risks often associated with more incremental changes.

5. *Incrementalism vs. innovation.* This is the issue of choice between the degrees of change in the administrative system in terms of its extent, scope and time. It can range from small incremental change of a few administrative details over a long period to fargoining, comprehensive and rapid administrative system redesign and even novadesign. The more innovation the higher often are the unpredictable consequences. However, the status quo and limited change may, in some dynamic conditions, be even more risky than fargoining change. It is useful to consider the pros and cons of innovation in administrative reforms and the related risks. Such measures as pilot experimentation and sequential decisionmaking may reduce risks.

6. *Comprehensiveness vs. narrowness.* This dimension deals with the “degree to which the administrative reform should deal with a broad range of administrative system components or should focus on a few or even a single component”.

7. *Balance oriented vs. shock oriented.* The question is, “in how far a reform should be directed at changing administrative system components in a mutually coordinated (‘balanced’) way, or whether a few or single components only are subjected to fargoining change with the purpose to shock the system into a new state-of existence.” In the case of a radical transformation of the administrative system, “shock effects which first disbalance the system so as to open it up for redesign and novadesign may often be the preferable strategy”.

8. *Relevant assumptions about the future.* It is necessary to base every reform on assumptions concerning the expected state of exogenous variables. The future of these variables must be taken into account when a preferable reform plan is being developed.

9. *Theoretical bases.* It is important to find out hidden assumptions behind a reform and reexamine and improve them with the help of systematic knowledge and theory. So called

'tacit theory' held by decisionmakers may influence decisions on administrative reforms, but tacit theories often have no theoretical bases.

10. *Resource availability.* There is a need to "bring up for consideration the often unrealistic hidden assumptions concerning resources (not only money, but also qualified staff, equipment etc.) which will be available for the reform", or to expose "lack of concern for many cost elements of a proposed reform."

11. *Range of reform instruments.* "Rational reform planning means adoption of a mix of reform instruments which, within the given constraints, provides the highest probability of better approximating the overall reform goals." One should check whether all available reform instruments were considered in selecting the instruments, or not.

These dimensions of strategy can serve as a framework for study of administrative reforms. They can be used for both comparative and analytical studies. However, the strategy can and should have different dimensions depending on particular situations. It means, there is no universal strategy for all administrative reforms although some common strategic dimensions can be used. Developing a strategy implies not only choosing a 'preferable mix' within one polar set, but incorporating and interrelating elements of different sets.

As Cohen (1976:175-177) indicated, there are also collaborative and non-collaborative approaches between reformer and target system. A collaborative strategy is inherently slow, and in some existing settings it is possible that a more coercive, less collaborative strategy is necessary to accomplish any movement. A non-collaborative strategy should only be used when the reformer in fact has or can get more power than any likely opponents can muster. For administrative reform this may necessitate strong support from the head of the government, from a majority of the congress, or from the general public, or any combination, depending on the balance of power in the particular country. When "the target system is rigid and unresponsive, personnel are tradition-bound and threatened, and power is so decentralised that changing the entire bureaucracy would require too many lifetimes to wait, then a very selective non-collaborative 'nucleus' strategy may be most effective in creating an organic unit" (*ibidem*:178).

2.3. The New Zealand Model of Public Management

Although the origin of the NPM was in the Reaganite and Thatcherite governmental reforms in the United States and England, they spread to other Western and Eastern countries. However, it was in New Zealand that it found its ultimate sophistication and a composite conceptualization. Hence it is useful to look at New Zealand's approach as embodiment of NPM philosophy.

The state sector reforms carried out in New Zealand have been truly remarkable. In the mid 1980s economic and political conditions and exciting theories of public management converged to produce extensive changes in public organizations. In reforming the State

sector reformers relied on novel economic concepts as well as on established management theory and on governmental experience. New Zealand's transformation of the State sector was influenced by two overlapping but distinctive set of ideas, one derived from the vast literature on management, the other from frontier areas of economics.

Managerial reform is grounded on a simple principle: managers cannot be held responsible for results unless they have freedom to act, that is, to spend and hire within agreed budgets as they see fit, to make their own choices respecting office accommodation and other purchases, to run their organizations free of ex ante control by outsiders.

In embracing managerial discretion and accountability, New Zealand reformers drew some lessons from the United Kingdom's Financial Management and Next Steps initiatives, as well as from Australia's Financial Management Improvement Programme. They were acquainted with the precepts of managerial accountability and schooled in contemporary accountability mechanisms introduced in many countries. Some had studied Sweden's long-established practice of separating its small policy ministries from the agencies providing services, and thought that this arrangement should be tried in New Zealand.

Managerial doctrine explains many of New Zealand's public sector innovations. But it does not account for the government's recourse to contract-type arrangements, the emphasis on outputs, and other distinctive features of the New Zealand model. To explain these, one must refer to a body of ideas known variously as the new institutional economics, including public choice theory, agency theory, and transaction cost economics explained earlier in Section 2.1. New Zealand reformers have been among the first to apply systematically institutional economics to the public sector. New Zealand Treasury brief "Government Management", submitted to the Labour government following its 1987 election victory, was, so to speak, a policy guideline of the reform. An interesting aspect of New Zealand experience is the fact that much of it has been initiated by the Labour Party.

The difference between managerial and contractual approaches parallels the contrast between "letting managers manage" and "making managers manage". The former assumes that once managers have been empowered, they will take initiatives that improve performance; the latter questions whether managers will be sufficiently tough-minded to make the needed changes unless they are prodded to act. Managerial reform is utterly dependent on the behaviour of managers, some of whom, contractual theory fears, will opportunistically prefer the ease of continuing the status quo to the difficulties of uprooting established practices and sacking sub-par performers. Managerial innovation has a soft side which contractual arrangements seek to counter. The former assumes that managers want to do the right thing and will do so if given the chance; the latter assumes that managers are motivated by self-interest, which may take precedence over the

organization's interest. If one subscribes to the latter view, then the hard edge of contracts and other enforcing arrangements would be warranted.

The following are some of the major management innovations pioneered in the New Zealand State sector since the late 1980s:

- Financial statements, the budget, and appropriations are on an accrual basis. Commercial accounting standards are applied to all public entities.
- Departments prepare monthly financial reports, quarterly performance reports on their purchase agreements, half yearly reports on the chief executive's performance agreement, and an annual report on financial results and outputs. The annual report is audited and the government issues a combined financial statement.
- Appropriations for operating expenses are made by output classes.
- Departments are headed by chief executives appointed under term contracts that set out conditions of employment. Public employees work under individual or collective employment contracts.
- Managerial discretion is less constrained in New Zealand than in any other countries that has reformed its State sector. Within budget limits and law managers are free to select the mix of inputs to be used in producing agreed outputs. They have flexibility in hiring and paying staff, obtaining office accommodation, purchasing supplies and services, and spending on other inputs.
- Accountability for resources and results is maintained through contract-like arrangements within government. Performance agreements between Ministers and chief executives set forth standards and expectations for department heads; purchase agreements between Ministers and departments specify the outputs to be produced during the year.
- A capital charge is levied on the value of each department's physical and financial assets, net of liabilities. Appropriations are struck to cover the cost of depreciation, thereby enabling departments to accumulate funds and repair or replace facilities without having to obtain a new appropriation of capital. Departments may request a capital contribution if cash in depreciation accounts is not sufficient to cover new investments.
- Departments maintain their own bank accounts and are responsible for managing cash balances. They earn interest on these accounts (Allen Schick 1996:2-3).

Main features of the civil service reform in New Zealand are shown in Annex No.2.

As a result of the reform, government departments in New Zealand are no longer the organizational cocoons many once were. They are not sheltered by special rules, stable career patterns, incremental budgets, and ambiguous performance standards. They increasingly resemble business organizations. The New Zealand experience shows how effective management practice in the private sector can be brought into a public sector environment and adapted.

The New Zealand experience is the most comprehensive reform of central government administration in the world to date. The comprehensiveness of the reform and the speed with which it was implemented were an important part of changing the culture of management in the public sector. Another reason for discussing it here is that it is the New Zealand model of NPM, which is being introduced in Mongolia now.

2.4. Features of Public Administration Reforms in Transitional Societies

After the collapse of socialist block, radical political and economic changes occurred in most former socialist countries. According to Hesse (1993) the former socialist countries have a number of common characteristics, such as:

- a transition from one party rule to a multi-party, pluralist system with democratic and accountable government;
- the deconcentration and decentralization of political power;
- the creation of distinct spheres of economics and politics, and;
- economic liberalization.

No socialist country has as yet completed the full process of economic liberalization. This is mainly because the task of transforming a former socialist economy is significantly more complicated than the issues facing a typical developing country. In many cases even rudimentary institutions that can be easily converted to market systems are lacking; and there is complete unfamiliarity with market concepts and terminology. What is required is not simply a transition to a new economic system but a fundamental transformation of the whole society and all of its major institutions in line with the market philosophy.

One school of thought emphasizes policy issues including design and sequencing of policies. Some scholars demonstrate the merits of “gradualism” and argue that China provides a strong case for evolutionary reform. Another view is that China was correct in starting reforms from agriculture and small enterprise. Others contend that China put economic reforms ahead of political reforms, while the order was reversed in Eastern Europe and the former Soviet Union (EEFSU).

In contrast, Sachs and Woo (1994) argue that the economic structure of EEFSU was such that it either augmented adjustment costs or enhanced the urgency of reforms. According to them, gradualism was not feasible in the EEFSU context. They advocate “big bang” reforms including rapid stabilization, liberalization and privatization for these countries. However, in all these commentaries, specifics of a new public administration system were rarely mentioned.

The Czech Republic, Estonia, Latvia, Poland and Slovenia adopted the “big bang” approach to reforms. This approach comprised drastic macroeconomic stabilization, sudden full-scale price decontrol and trade liberalization. It also involved relatively quick transfer of property rights including privatization. Reforms sought to convert the old

centrally planned system into a free market economy in a short period of time. In such a context, the issue of how to sequence reforms was not very relevant.

Hungary, Romania and Bulgaria adopted a more gradual approach emphasizing macroeconomic reforms (fiscal, monetary and foreign trade reforms). This gradualism is macro-first gradualism. Russia has adopted a combination of “big bang” rhetoric and mostly gradualist practice as a result of the unending struggle between reformers and conservatives.

Reforms in the transitional economies of Asia were not doctrinaire but evolutionary and pragmatic. While the long-term objective of reform is to reduce the role of government, regulatory intervention can play an important role during the transition period. Asian approach to sequencing policy reforms involves implementing microeconomic reforms (price reform, agrarian reform, industrial enterprise reform except privatization, and reform of the legal framework under which enterprises operate) earlier than macroeconomic reforms (fiscal, monetary and foreign trade reforms). This approach differs not only from the “big bang” approach but also from the approach of Hungary, Romania and Bulgaria, which like the “standard approach” of the WB and IMF, places macroeconomic reforms first.

The strategy of first encouraging the non-state sector and then progressively reforming the public sector allows the growing private sector to absorb laid-off state employees, and is thus a less painful way of reforming the enterprise sector.

The sequencing in which microeconomic reforms have been implemented prior to macroeconomic reforms, has encouraged the development of institutions capable of responding to market opportunities, eliciting quick supply responses and reducing the social costs of adjustment.

Here I should emphasize the difference between the political reforms taken place in the Asian and East European countries and while comparing these two regions, one should not forget the difference between the political systems in these transitional societies. Communist parties are still the only ruling parties in China and Vietnam, whereas this is not the case in other transitional societies, including Mongolia. Political system plays a decisive role for the reforms in other sectors, including public administration. Mongolia experienced a political transformation as dramatic as those in EEFSU and has adopted an East European approach to liberalization.

Under the socialist system a large, well-equipped civil service was unnecessary because it worked according to political decisions and political mobilization, not by rules and regulations. Thus the reinvention of the state with an accountable system of public administration is a central point to the reforms. The essential features of a new system of public administration are:

- the need for a deliberative policy formulation capacity that respects the distinctive roles of politicians and officials;
- new systems require decentralized structures of service delivery that satisfy competing and complex requirements of efficiency, accountability and responsiveness;
- in the long term public administration system should be restructured on the principles of NPM.

In many cases the political process is underpinned by high levels of uncertainty and instability, which, among other things, inhibit the process of administrative reform. Central to this reform process is the creation of a legal framework that clarifies the respective roles of the various actors in the process. Further, the process of economic reform is hampered by political instability, and the absence of administrative structures and appropriate legal frameworks necessary for the creation of markets.

Collins (1993:323-4) stated that the circumstances of change are different in different countries for several reasons:

- the differing impetuses for change, both internal and external;
- the differing country characteristics: resources, market size, government and political system, the extent of private sector development, and the state of the infrastructure; and
- the differing goals of change.

The earlier literature on civil service reforms in developing countries showed that strategically administrative reform was successful, when it was part and parcel of the main economic and political change. There was less chance of its success, when it was undertaken on its own as a separate activity. Unfortunately those involved in designing main economic and political change strategy do not appreciate it and administrative change which needs to precede economic and political change, instead is relegated in importance and postponed for a later date. This results in lack of strong political support and allocation of adequate financial and expertise resources to public administration reform. As a result public administration lags behind other sectors and is often criticized for being an obstacle and withholding progress in other sectors. Hence consideration of strategy of administrative reform is as important for its success as the contents of reform.

In conclusion it should be noted that the situation in Mongolia will be examined in terms of (a) comparison of actual reforms introduced through UNDP and WB/IMF against the prescriptions of NPM (including discussing their relevance for Mongolia), (b) comparison of actual strategy used against prescription of Dror, and (c) comparison of Mongolian scene with that in New Zealand and some transitional societies, to draw comparison and contrasts. Also this analysis will be used to anticipate some of the problems and issues likely to be faced in administrative reform in Mongolia in future with a view to suggesting remedial activities.

Chapter Three: PUBLIC ADMINISTRATION REFORM PROCESS IN MONGOLIA

3.1. Mongolian State Policy on Reforming Government Processes and the General System of Structure and its main principles

As mentioned earlier in Section 1.3., in May, 1996 the Parliament approved the "Mongolian State Policy on Reforming Government Processes and the General System of Structure". The purpose of this Policy Paper is "to redefine directions of government processes, to streamline its general system of structure through re-engineering, to introduce management methods suited to market economy relations in a democratic society, to reduce budget costs of public entities and raise their efficiency through enhancing the leadership role of the Government".

The Policy Paper determined *the policy on reforming the government processes* and the government priorities, mission, strategic and operating objectives were clearly defined.

Macroeconomics stability, alleviation of unemployment and poverty, development of management capacity, reform of the public administration and civil service, development of the education sector, privatization, development of the legal and legislative systems and their enforcement, development of infrastructure, and rehabilitation of national industry were determined as *priorities* of the Government of Mongolia for its mandate term.

The *Mission* of the Government of Mongolia in nearest 10-15 years was "to adapt government to the requirements of the market economy in a democratic society and assist the creation and consolidation of a viable private sector".

To achieve the stated mission the following government *strategic objectives* to be achieved within the near five year term were proposed:

- Strengthen the national leadership role of government and implement major operational improvements;
- Strengthen the government's executive management;
- Strengthen local self-governance and local administrations;
- Provide an enabling environment for the private sector;
- Manage public administration reform impacts and adjustment.

There were 20 *operating objectives* and 40 *reform actions* supporting the above-mentioned strategic objectives. All these objectives defined the policy on reforming the government processes (see Annex No.3).

On the basis of the policy on reforming the government processes, *the policy on reforming the government business structure* was defined and 5 basic, specific, distinct *governmental sectors* were identified. These are:

- *The environmental sector*, covering natural resources;
- *The productive sector*, covering agriculture, industry, mining;
- *The infrastructure sector*, covering energy, public utilities, construction, transport, communications and information;
- *The social sector*, covering health, education, culture and welfare;
- *The core function sectors*, covering justice, defense, external affairs.

Within each of these sectors, the business of government supposed to be organized according to the following *functional alignments*: *Line ministries* will assume strategic planning, providing policy guidance, formulating programmes, regulating, monitoring, evaluating and assessing functions, while *regulating agencies* will assume legislation and standards' enforcing functions and *implementing agencies* - policy implementing functions. Policy implementing functions might also be assumed by economic entities with total or partial state ownership, by the private sector or NGOs on contract basis with the Government.

With regard to the *local administrative entities* - all level Governors' Offices will assume local territorial strategic planning, providing policy guidance, formulating programmes, monitoring, evaluating and assessing functions. Implementing agencies and budgeted organizations shall implement policies. Private sector and NGOs may assume functions of implementing some policy objectives, getting required financing from the budget (see Annex No.4).

Entities with general management functions (national development planning, macro-economic analyses, financial, personnel, supporting executive management) and inter-sectoral government agencies assuming other functions (trade, labor, customs and tax) will support the operation of line ministries. The Government will assume leadership functions. The public and private sectors will assume the role of generator of national development, progress and economic growth.

Lastly, *the policy on methods and resources* for the reform was also defined. For example, *principles* to be guided in the implementation of the reform policy, *scope* of the reform, key features of *management style*, *management values* and *management philosophy*, leading and implementing *entities* of the reform, basic types of *government functions* within a democratic, market-oriented environment, methods and *approaches* of implementation, *resources* required for design and execution of the reform, *phases* for implementing, and *key factors* for formulation and operationalisation of the reforming the government processes and structure, were defined in the Policy Paper.

Economy of size, effective executive leadership, effective ministry management, rational regulation, rational service delivery, be close to the customers, effective local governance, effective state enterprise management, common administrative service delivery, and enabling the private sector are the *main principles* to be guided in the implementation of the reform policy. They are closely related to the requirements of the transition period such as creation of effective administration with smallest apparatus, strengthening its capacity, concentration of the nation's small labour force and scarce resources in the productive sector, reducing the length and costs of the transitional period, promotion of the private sector and general effectiveness and efficiency.

The *scope* of the public administration reform was limited by the Government Supreme Executive Branch plus related entities subordinated to it.

Delegation of authority, decentralization of decision making, achievement of results, application of values, transparency and accountability are the key features of the government *management style*.

The idea of management values which constitute a new organizational culture is that the Government would rely more on the ability of managers to manage and less on resolutions, decisions, other instructions and procedures. The *management values* of this new culture are: customer oriented services, strong working and partnership relations, trust and respect, leadership and vision, strong, entrepreneurial, innovative and creative management, continuous improvement and experimentation, loyalty, dedication and commitment to quality/value-for-money, professionalism, integrity, judgement, discretion and excellence.

Definition of policy basic directions, organization of policy implementation, accountability, resource management and executive management were identified by the Policy Paper as five basic types of *government functions* within a democratic, market-oriented environment and were explained clearly.

The *approaches* like phased approach, incremental change, process review, methodological adaptation, keeping things simple and manageable, and assignment of authority, accountability and availability of resources have been chosen for the implementation of the public administration reform policy.

3.2. Implementation of the Policy Paper

The Policy Paper was prepared by the Government created by the Mongolian People's Revolutionary Party (MPRP) and approved by the Parliament where the majority was the members of the MPRP. However, the MPRP Government did not have time to implement it. The new Government created by Democratic Union Alliance started to implement this policy. The following main activities were carried out within the framework of the Policy Paper.

3.2.1. Establishment of new ministries and appointment of State Secretaries

As already mentioned, only 9 ministries were established replacing previous 13 ministries. According to the Law on the Government of Mongolia, a ministry is a public administrative central entity specialized in and responsible for respective sphere and sector of the Government activities. The structures of the Government before and after July, 1996 are shown in the Table No.1.

Table No.1: The Structures of the Government before and after the 1996 Election

Ministries of Mongolia	
Before July, 1996	After July, 1996
<ol style="list-style-type: none"> 1. Ministry of Environment 2. Ministry of Defence 3. Ministry of External Relations 4. Ministry of Infrastructure Development 5. Ministry of Energy, Geology and Mining 6. Ministry of Finance 7. Ministry of Culture 8. Ministry of Trade and Industry 9. Ministry of Justice 10. Ministry of Demographic policy and Labor 11. Ministry of Food and Agriculture 12. Ministry of Science and Education 13. Ministry of Health 	<p>Central management functions ministries:</p> <ol style="list-style-type: none"> 1. Ministry of Finance, 2. Ministry for External Relations, 3. Ministry of Justice; <p>Line ministries:</p> <ol style="list-style-type: none"> 4. Ministry of Nature and Environment, 5. Ministry of Defense, 6. Ministry of Science, Technology, Education and Culture, 7. Ministry of Infrastructure Development, 8. Ministry of Agriculture and Industry, 9. Ministry of Health and Social Welfare.

Ministries, being the working apparatus of respective ministers, are designed to develop strategic plans on matters within the competence of their respective ministers, provide them with policy guidance, formulate and coordinate programmes, carry out monitoring and assessment, as well as to provide them with highly qualified advice and services. Item 4, Article 18 of the "Law on the Government" states that "Minister of Mongolia shall lead a ministry". Although a Minister leads the ministry he or she shall not manage the day to day operation of the ministry.

Therefore, in August, 1996, positions of State Secretaries (equal to Permanent Secretaries or Administrative Vice-Ministers) were established and introduced anew. The Law on the Government of Mongolia legalized the authority of State Secretaries as follows: "Ministries shall have State Secretaries. State Secretaries shall assume functions to organize and manage the operation of the ministry apparatus on professional basis."

State Secretaries are the top level public administrative officers and have the rank of leading officers. Job descriptions and performance procedure for State Secretaries were approved by the Government Resolution No.3 of January 2, 1997 and entered into force.

There is no separate law stipulating the legal status of ministries, and they operate along with an obsolete procedure approved by the Government. Subsidiary laws defining functions of ministry (as public administrative entities) do not comply with the Policy Paper which designed anew the Government processes and the new functions to be assumed by ministries. It should be noted that the Draft Law on the Status of Ministries is already before the Parliament, but it is not progressed pending a new strategy for the public administration reform.

3.2.2. Restructuring the Cabinet Secretariat

“Business Strategy and the Programme for Reforming the Organizational Structure of the Cabinet Secretariat of the Government” was approved by the Government Resolution No.205 of August 22, 1996. It made possible for the Cabinet Secretariat to carry out its activities in line with the new business strategy. The Law on the Government defined anew and approved the competence and functions of the Cabinet Secretariat. As to the organizational structure, the Government Cabinet Secretariat has 5 departments and each of them formulated their own business strategy and the model of structure anew. These transformations within the Cabinet Secretariat became the starting point or break-through measures for implementing the Policy Paper.

3.2.3. Establishment of regulatory and implementing agencies

Subsequently, new regulatory and implementing agencies were established. The General Scheme of Public Administrative Entities and their Structure was approved by the Parliament Resolution No.40 of August 30, 1996. According to this resolution 23 regulatory and 34 implementing agencies were established within the competence of respective ministers. This is shown in the Table No.2

Table No.2: Number of Regulatory and Implementing Agencies

Spheres of competence and subordination	Regulatory agencies	Implementing agencies
Subordinated to the Prime Minister	2	4
Subordinated to the Cabinet Secretariat	-	2
Within the sphere of Finance Minister's competence	5	2
Within the sphere of Foreign Minister's competence	-	-
Within the sphere of Justice Minister's competence	1	5
Within the sphere of Environment Minister's competence	2	1
Within the sphere of Defense Minister's competence	2	2
Within the sphere of Enlightenment Minister's competence	2	-
Within the sphere of Infrastructure Development Minister's competence	1	11
Within the sphere of Agriculture and Industry Minister's competence	4	5
Within the sphere of Health and Social Welfare Minister's competence	4	2
Total	23	34

3.2.4. Introduction of government common service system

Elements of government common services like common buildings, parking of vehicles and centralized current budgets were also introduced immediately. Ministries used to have their own buildings, but from 1996 most of them were located in common buildings. For instance, Ministry for Agriculture and Industry, the Ministry for Infrastructure Development are located now in the Government house No.2, the Ministry for Nature and Environment and the Ministry for Science, Technology, Education and Culture are located in the Government house No.3, the Ministry for External Relations, the Finance Ministry, the Defense Ministry and the Ministry for Health and Social Security are located in their own buildings. The property of the ministries have been transferred to the Government Services and Logistics Department.

Parking of vehicles was centralized and organized at the government garage subordinated to the Government Service and Logistics Department. This was an important step towards improving the utilization of state property, and the system of every single ministry having own vehicles and parking was changed.

Since all services provided to the ministries were transferred into common service system, the ministry current budgets are also centralized at the Government Service and Logistics Department. Ministry budgets consist of few lines like the payroll, the insurance paid by the government for their employees, heating of buildings, power

supply, transportation, communication, stationary costs, internal and external official travel costs.

3.2.5. Elaboration of business plans and a new structure for the ministries

The elaboration of business plans and new model of structure for the ministries was organized by the Government. In order to develop business plans and a new structure for the ministries, project teams consisting of 5-9 persons were set up at all the ministries. The State Secretaries were nominated as team leaders, and the Ministers were acting as advisers. In the Government Cabinet Secretariat the central project team was set up to support the project teams at the ministries.

As a result of this effort all 9 ministries drafted their business strategies and the model of structure. Ministries analyzed and assessed their businesses, based on which their missions, strategic objectives, goals and roles were identified. This enables them to operate in the future with concrete goals and directions. The idea was that the more concrete the goals the better will be results.

It is stated in the Law on the Government of Mongolia (Item 4, Article 20) that “*Minister of Mongolia as a member of Government, within the undergoing framework, shall undertake strategic planning, provision with policy guidance, programme formulation, coordination and monitoring, evaluation and appraisal*”, and since policy ministries are working apparatus of the ministers, these provisions were considered as a basis for defining their business strategy objectives. First, the model of ministry business strategy objectives was elaborated, on the basis of which the model of ministry business structure was proposed. The following principles were applied for elaborating the organizational structure:

- Organization designed only for achieving goals and objectives;
- Organization is an appropriate form for centralizing and concentrating resources required for attaining goals. For this purpose it should be efficient;
- Structure follows the strategy;
- Structure is organization of efficient performance of units or groups in terms of accountability relations and information flow;
- Structure should be simple and small;
- An employee should have only one direct supervisor.

According to the Policy Paper the key functions and business framework of central ministries are “*comprehensive policy and planning*”, while for line ministries - “*sectoral policy and planning*”. Therefore, the following models of the organizational structure of central and line ministries were proposed (see Annex No.5).

Based on the proposals of the ministry project teams, the Government approved business plans and structure of 6 ministries (Government Resolutions No. 131, 140, 141, 142, 151.

164). Three ministries, namely the Ministry of Finance, the Ministry of External Relations and the Ministry of Infrastructure Development, did not submit their proposals to the Cabinet, because the Ministers of these ministries do not accept the model of structure proposed by the project teams. Their argument is that the central project team who was guiding the development of business plans for the ministries pressurized to follow its guidelines and therefore all the ministries prepared identical proposals. Structures of the ministries should be different according to their specific profile. In a word, they expressed their interest to retain the existing sectoral departments and divisions.

Transformation of ministries into policy and planning ministries has started. The ministries which used to deal with policy, planning, their implementation and control will be transformed into policy ministries responsible for strategic planning, policy guidance, programming, coordination, monitoring and evaluation. Establishment of new ministries and regulatory and implementing agencies was the measure taken in accordance with the concept of the Policy Paper to separate policy formulation and implementation functions organizationally.

So far all the activities were undertaken in line with the Policy Paper. The next agenda was the development of business plans and model of structure for the agencies. However, as it was mentioned before, recently the government decided to stop the implementation of this Policy Paper and revise the design of the Paper. What was the reason for it? The next section tries to explain it.

3.3. Evaluations and Recommendations done by some evaluators

Initially the new Government started to implement the Policy Paper because the new Government did not have its own policy on public administration reform, and also the Policy Paper was, for that time, relatively new and well formulated policy. The Policy Paper was considered and recognized by not only Mongolian politicians and experts, but also international consultants from UNDP, IMF, World Bank and New Zealand as a first and quite comprehensive guideline for the public administration reform. Objectively also the total package and individual measures could be supported on the basis of public administration theory and strategy of administrative change. For example, the mission from IMF pointed out that “the public administration reforms to date appear to have provided a sound basis for ordering the structure of government business and for a thorough review of the functions in which the Government should properly be involved. This is a unique opportunity and every effort should be made to ensure that the benefits of this review are realized” (IMF 1997). Dr. Graham Scott, former Treasury Secretary in New Zealand, has expressed the following: “the public administration and civil service reform has made a lot of progress in particular areas and encouraged a substantial number of management development activities in various ministries and sectors” (Scott 1997).

The UNDP evaluation mission assessed, among others, the implementation process of the public administration and civil service reform project and named this project as most active and productive component of Mongolian Management Development Programme. The mission also stressed that the priority given to this area was fully assumed by the previous government. “Probably the Business Strategy for the Government of Mongolia has been the most important result arising from this concentrated effort. It may be regarded as the centerpiece of the programme, as the bridge between a diffused vision of what was required from the state under the new economic and political circumstances, and a blueprint for actual implementation of change” (UNDP:1996).

It should be noted, however, that the new Government did not implement all the recommendations of the Policy Paper without any changes. The Government changed some proposals while implementing the Policy Paper. For example, the Government did not accept the idea of creating a new Ministry of Economy on the ground of the former National Development Board. Instead it abolished the National Development Board, whose functions were transferred to the Ministry of Finance and to the Ministry of External Relations. In fact this is not a novelty. Combination or separation of economic policy and finance functions have always been a controversial issue in developing countries as well as in transitional societies. The Government abolished the position of vice-minister, which was already stipulated in the Law on Government Service of Mongolia, but introduced the position of State Secretary in the ministries. Also the composition of the ministries of central management functions was changed against the initial proposal.

In the course of implementation, the Government started to think to revise the Policy Paper. First critical remarks regarding the programme were announced by Mr. Enkhsaihan, the current Prime Minister of Mongolia, in his inaugural speech at the Government of Mongolia's Management Development Programme III Global Workshop. He said:

Our Government properly appreciates the efforts and work carried out by numerous foreign and national experts within this programme framework. However we all need to admit that this programme has been formulated and implemented by the previous Government which had principally different from our approach with regard to undertaking economic reforms. There is a need to revise further some parts of this Programme. Since the Programme embraces numerous vital policy problems, before going ahead with further implementation along with original plans, it should be revised employing a precise and new critical approach.

In January 1997, the mission from IMF visited Mongolia to carry out the preparatory work for the new ESAF (Enhanced Structural Adjustment Facility) agreement between the IMF and the Government of Mongolia and prepared an aide-memoire with recommendations what to do with regard to the public administration reforms. According to the assessment by this mission, "so far, the process has largely focused on administration and has not been linked to reform of the budget process", "the primary emphasis of the public administration reform to date appears to have been on organizational and administrative change" and "public expenditure management (PEM) considerations are not well reflected in the current statement of policy and the Ministry of Finance (MOF) appears to play a relatively small role in its implementation". The main recommendations of this mission to the Government of Mongolia with regard to the public administration reforms were the following:

- *The MOF should immediately take on a central role in further development of the public administration reforms and these reforms should be integrated with the budget process by taking into account budget constraints and the need for improved financial accountability.*
- *Devolution of financial powers to agencies (along the lines of the New Zealand model) should proceed only to the extent that systems of accountability fully satisfactory to the MOF are in place (IMF:1997).*

In short, the mission recommended very strongly that the MOF play a much more active role in further development of the public administration reforms, that the PEM considerations be incorporated in the design of the reforms, and that the pace of public administration reform be determined by the extent to which an improved accountability and incentive structure can be put in place. Thus, the IMF mission recommended to apply the New Zealand model for the public administration reform in Mongolia. Apparently

these recommendations were taken into consideration by the Government seriously, and the orientation of public administration reform changed from a comprehensive approach covering all important aspects to a concentration on financial reform, related to IMF needs and requirements.

In response to a request from the Mongolian authorities for technical assistance on public administration and government accounting reform, the two missions from New Zealand visited Mongolia in March and May 1997. The first mission assessed the situation in relation to the policy on agencies, and made recommendations as to the strategy the Government of Mongolia should pursue in this and related areas of public sector management reform. The second mission drafted the design of a new strategy for public administration reform in Mongolia, including fiscal, accounting, legal and administrative aspects.

The first mission named four provisos of the design of the public administration reform programme as follows:

1. *The concept of performance embodied in the documents is unclear. The absence of clarity associated with the extensive delegations to agency chief executives, creates a risk of loss of control.*
2. *The performance agreements are with the agencies, not the chief executives.*
3. *The sequencing of the reform process appears inappropriate. The delegations of authority should follow, not precede, the putting in place of effective performance contracting and monitoring arrangements.*
4. *The reform design does not take sufficient account of the need for consistency in design (Ball 1997).*

The mission considered the design as generally sound although some flaws exist in the original design. However issues associated with implementation, including sequencing issues, have compounded the design flaws in a way which carries quite significant risk of, and some actual, loss of control.

The first mission's conclusions were the following:

- *Aspects of the agency accountability relationships are not well specified, in particular:*
 - *performance definition, and*
 - *incentives relating to the performance of chief executives.*
- *The Business Plans being developed do not adequately define the outputs of the agency.*
- *The agency reforms are not well integrated with civil service and budget law reform.*
- *There is a capacity problem in relation to the specification of performance, especially for outputs.*

- *The appropriate development process for the skills necessary to implement the reforms successfully should move from the center out, ensuring that skills are developed in the MOF first, then line ministries, then agencies. The skills that are critical in the first instance are contracting for and monitoring performance, preferably in output terms.*
- *Performance specifications should be established prior to the delegation of authority, in order to establish clearly that the nature of the reform is to move from one form of control (based on inputs) to another (based on outputs) (Ball 1997).*

On the basis of these conclusions the mission recommended the following:

- *to move to a management system focusing primarily on outputs*
- *to clarify the framework for ministries, agencies and budget entities, incorporating the Civil Service Law and the Budget Law.*
- *to develop a clear statement of the requirements which must be met in order for agency status to be granted or maintained.*
- *to develop guidelines for output specification and contracting, possibly adapting the New Zealand "Purchase Agreement Guidelines".*
- *to incorporate the output concept into Strategic and Business Plans.*
- *Chief Executive (CE) performance agreements should be incorporated into the design, with clear links between agency and CE performance.*
- *output specifications should be negotiated with ministries and agencies.*
- *Chief Executives should be advised that agency status is conditional (Ball 1997).*

The above specification of drawbacks in the previously UNDP designed public administration reform programme shows that the Mission was emphasizing finance led and controlled reform process, concentrating on efficiency and output, rather than on broader policy orientation. Secondly, there was no conscious effort to question whether the Mongolian public administration system and individual administrators can make this quantum jump from not-having a modern, merit-bureaucracy to the most sophisticated stage, which very few western countries have achieved.

The second mission from New Zealand also recommended that the MOF must take the leadership role in design and implementation of the fiscal, financial and management reforms.

One of the arguments for re-orienting the public administration reform was a typical assumption of Agency theory and related to the danger of proceeding "by granting widespread authorities over finance and human resources to government entities which do not have either the capacity to use those freedoms effectively, nor the systems of control and accountability to ensure that local organizations act in the interests of the government as a whole and its critical development objectives" (Scott 1997). It was stated that the reorientation underway has implications for the role of the centre of government. It will shift from detailed control of all inputs with associated clerical functions to having more

emphasis on the monitoring of the achievements of government entities and the development of advanced capabilities in policy analysis and strategic thinking.

The recommendations of the IMF and New Zealand consultants were apparently compatible with the needs of the Government, and, thus, the decision was taken to stop the implementation and change the implementors of the reform policy, and elaborate a new strategy for the public administration reform. I think, it was not because of poor implementation. I should mention that the implementation of the Policy Paper, which is the result of cooperation between the previous Government and UNDP, was going on quite well. The process of implementation was intensive, involving all the ministries.

According to the consultants from the IMF and New Zealand, the reason was the errors in its design. "The reform program has been suspended due to concerns relating to the design of the reform program and a concern that the present reform process could lead to the Government losing control of the agency sector, in particular the concern at the possible loss of fiscal control" (Ball 1997).

Of course, it was the formal reason. Beyond this there could be other reasons like a desire of the Government to have its own policy (it might be not desirable to implement the policy of the previous Government not having own policy different from the previous one). and kind of competition between the international organizations and their consultants to get a better position in the recipient country. In fact, the above mentioned UNDP evaluation mission recommended that the Management Development Programme should move to a broader Governance Development Programme including the legislative system and the judiciary. However, this recommendation was not considered properly, and the scope of the programme was narrowed down instead of broadening.

It should be noted that there was little attempt to appraise existing capacity of Mongolian agencies to develop performance and output indicators, performance contracting and market-oriented financial management, availability of information for this, the need for training a large number of Chief Executives in the difficult processes of self-standing agencies. It took England and New Zealand many decades in an already capitalist, democratic entity to reach the stage of the NPM.

3.4. A New Strategy for the Public Administration Reform

In August 1997 the new ESAF (Enhanced Structural Adjustment Facility: Policy Framework Paper, 1997-2000) agreement between the Government of Mongolia and the IMF and the World Bank was approved. This should be considered as a main guiding document for the Government of Mongolia in nearest 3-4 years. According to this document the main directions of a new strategy of public administration reform in Mongolia have been determined as follows:

- *to improve the efficiency of government operations by decentralizing decision-making while increasing financial control and managerial accountability;*
- *to introduce an interim treasury system to enable close monitoring of government expenditures, including the overall wage bill, and consolidate all government accounts into a single treasury account at the central bank;*
- *to develop a budgeting, accounting and management framework to strengthen expenditure management and prepare the way for a gradual decentralization of public administration over the medium-term;*
- *to launch a pilot project along with the 1998 budget, under which one ministry and three agencies will be switched to the new expenditure management system. (Once sufficient control over expenditures has been assured, implementing and regulating agencies will be given more autonomy to determine individual wage levels within their overall wage allocations);*
- *to reduce civil service staffing levels significantly and adopt a more competitive and differentiated public sector wage scale to help retain high quality staff (ESAF).*

It was noted in this ESAF agreement that the civil service reform program was developed "in conjunction with the architects of New Zealand's path-breaking structural reforms". Now it is clear that the Government of Mongolia decided to pursue the New Zealand model of public administration reform. One who pays the piper calls the tune.

Chapter Four: ANALYSIS OF THE POLICY DESIGN AND IMPLEMENTATION STRATEGY

4.1. Analysis of the New Strategy on Public Administration Reform

It does not make sense to analyse the possible results of the policy which was not implemented fully and stopped. Therefore, I would like to limit the analysis of the previous Policy Paper by the evaluations done by the UNDP, IMF and New Zealand consultants. However, it will be more useful to analyse the new policy and strategy for the reform since it is the position of the Government to introduce such a reform to the Mongolian public administration. Although there is not a clearly stated policy paper as such, the main directions of the new strategy can be scraped from the new ESAF agreement, the New Zealand model of public management and the Draft Act on Public Sector Management and Finance (The New Responsibility System).

The New Strategy could be considered as a 'copy' of the New Zealand model of public administration. Therefore, in order to analyse the content of the New Strategy it is possible to use the concept of NPM and such theories as Public Choice Theory, Agency Theory and Transaction-Cost Economics. In addition to the analysis of the content of the New Strategy, I also try to predict some possible consequences and highlight problems and contradictory aspects.

4.1.1. Content of the New Strategy

Content of the New Strategy is just in line with the NPM concept. It is evident from the following analysis of the main features of the New Strategy which is done against the prescription of NPM concept described in Section 2.1.

a) First important issue is to recognize that "public and private organisations can, and should, be managed on more or less the same basis". The current trend is the gradual displacement of the norms of public administration by those of the private market and business management. Distinction between public administration and business management is disappearing. What is appropriate for the private sector should also be applicable to the public sector. Given the modern trends it would be an extremist position to think that management methods of public and private organizations must always be different. Instead, one could use the best possible method of management regardless of its origin. Stereotyped thinking about the inconsistency between business management and public administration should also be changed.

If we look at the New Strategy from the above-mentioned point of view, the idea to use methods of private sector management in the state sector organizations in general, and in ministries and agencies in particular, is already stipulated there. For example, it is stated in the new ESAF Policy Framework Paper that "managers will use ... greater autonomy ... to develop more efficient means of achieving their goals". Also the Draft Act on Public

Sector Management and Finance (The New Responsibility System) intends to stress the importance of responsibility of State Secretaries and Agency Chief Executives as managers and a good employer.

b) The principal difference between the previous Policy Paper and the New Strategy is a move away from a total system design of a public administration system of a democratic, market economy with its normative orientation to a greater reliance on quantifiable output measures and performance targets (see Table No.4). Within the framework of the Policy Paper there were attempts to introduce work standards and job descriptions to the ministries and agencies. However, according to the New Strategy, only outputs of their activity would be determined beforehand and the State Secretaries and the Chief Executives will have power to decide what inputs they need for achieving the outputs. In other words, the emphasis is on internal efficiency, input-output relationship and not effectiveness, output-policy relationship.

c) The New Strategy puts much reliance on the management skills of the State Secretaries and the Chief Executives, rather than on policy and management change.

d) One of the objectives of the new ESAF Policy Framework Paper is to “decentralize decision-making while increasing financial control and managerial accountability” and “to introduce an interim treasury system to enable close monitoring of government expenditures” (ESAF). Focus on decentralization is limited to financial control, rather than participation and service delivery.

e) The idea of disaggregation of large bureaucratic structures into quasi-autonomous agencies, in particular the separation of commercial from non-commercial functions and policy advice from delivery and regulatory functions, was already stipulated in the previous Policy Paper. The new ministries and regulatory and implementing agencies were established in line with this idea of the Policy Paper. It appears that the New Strategy intends to introduce its new responsibility system on the basis of this disaggregation and separation principle. However, the emphasis in disaggregation is on financial control and accountability, rather than effective policy-making and its implementation.

f) Private ownership, contestable provision, and the contracting out of most publicly funded services are the important parts of the New Strategy and “non-core functions will be removed from the civil service” (ESAF). This first requires development of an indigenous, efficient private sector.

g) The next feature of the NPM is a shift from relational to classical modes of contracting (e.g. from long-term and generally poorly specified contracts to shorter-term and much more tightly specified contracts). The fact that the State Secretaries and the Chief Executives will have performance contracts, indicates that this issue is an important part of the New Strategy. Already a shift from politicized bureaucracy to a merit bureaucracy

is a big jump. From a tenure to a temporary contract with a performance contract is a big jump even for experienced senior officers of many industrialized countries.

h) Private sector management practices will be widely used in the public administration organizations. Some of them such as the development of strategic plans and mission statements, and the development of management information systems, are already started during the implementation of previous Policy Paper. It is not the process which is a novelty but the contents and methodology of planning. Besides this, short-term labour contracts, performance agreements and performance-linked remuneration systems will be also used.

i) To help retain high quality staff “a more competitive and differentiated public sector wage scale” will be adopted. A preference will be for monetary incentives rather than non-monetary incentives. This could be practiced for a small group of senior administrators, but soon others will also for the same.

j) “Significant cutbacks in staffing levels” are expected in order to finance this more competitive and differentiated public sector wage scale. Without a dynamic, growing private sector to absorb surplus staff, this will create political problems, as the experience of other transitional and developing countries shows.

Based on the above-mentioned features, the New Strategy can be considered as a policy, the content of which is in line with the concept of NPM. Much will depend on the draft Act on Public Sector Management and Finance which is going to be approved by the Parliament soon. It is expected that this Law will be kind of policy guideline of the New Strategy. Once approved by the Parliament, destiny of this reform policy will depend on the implementation strategy and its management.

4.1.2. Implementation Strategy

It is difficult to analyse the implementation strategy without having a whole strategy itself. However, on the basis of available data and materials pertaining to the New Strategy, some analyses can be done.

The first dimension of strategies for administrative reform is clarification of the overall goals of an administrative reform. According to the new ESAF Policy Framework, the **overall goal** of the New Strategy is the reducing the size of the state sector in order to facilitate the establishing macroeconomic stability and fostering private sector development. Reducing the size and scope of the state sector is fundamental to releasing resources to the private sector. Achieving this will require radical action on taxation; measures to contain budgetary expenditures, especially through reforms of the civil service, social welfare, and state enterprises; and steps to limit the state’s role to only those areas necessary for a market economy.

This civil service reform program **aims** to achieve “a profound change in the government’s method of operation” and under this program, “the public sector must be pared back to its core functions - policy formulation, general administration, and the provision of key services, with emphasis given to achieving well defined output objectives” (ESAF). Both production and delivery of goods and services to be privatized or decentralized to lower levels. **Objectives** of this reform program are described in Section 3.4.

With regard to reform **boundaries**, it is stated in the Draft Act on Public Sector Management and Finance (The New Responsibility System) that management of public sector will be achieved through clear specification of performance requirements and effective accountability relations between the Parliament and the Cabinet; ministers and their ministries, agencies, state owned enterprises and local governments. Boundaries are drawn to emphasize financial efficiency, rather than ensuring overall good performance.

Time is going to be limited. Since the time frame of the new ESAF Policy Framework Paper is 1997-2000, the objectives stipulated in this document regarding the public administration reform program should be achieved by the year 2000. According to the newspaper “Arдын Erkh” (People’s Rights) of 10 September 1997, Mr.P.Tsagaan, the Minister of Finance, during his speech in the workshop on management and finance of public administrative organizations, mentioned that “public administrative organizations could compete with private sector by 2003” as a result of this reform programme.

Considering the fact that in New Zealand the reforms were introduced over a period of some eight years, it seems to me quite ambitious. Furthermore, before the reform the public administration system in New Zealand was in much better position than that is in Mongolia now. Reform process in New Zealand has improved its already well developed and well trained administrative system further. In fact, NPM is the last stage of development of public administration system of capitalist economies, where both public and private sectors have existed in developed form for quite some time and NPM is the conclusion of a number of incremental steps, such as Taylorism, PPBS, performance measurement and performance improvement, successive measures of decentralization and a professionally recruited and trained bureaucracy.

However, in the case of Mongolia, many aspects of a public administration system are to be established anew. To introduce this in a transitional society in such a short period of time, without corresponding capacity building, is wishful thinking. I think, on one hand, this is related to the political desirability of being able to demonstrate positive results early in the process. On the other hand, I realize that rapid implementation will be much easier where key officials accept the need for change and endorse the main reform initiatives. In any case both training and consultancy implications of changeover are tremendous.

By nature this reform policy is radical and **innovative**. As mentioned, it is the policy of the Government of Mongolia to promote and develop a viable private sector in Mongolia.

The Government is currently implementing the Structural Adjustment Programme in line with the ESAF agreement between the Government and the IMF. As a result, a new private sector has been formed and its scope and borders are expanding in contrast to that of state enterprises and budgeted organizations. This process will continue until the Government will have only those goods and services which need state financing unavoidably after transferring others to non-state sectors. A new situation has emerged.

In connection with this there is a need to adapt operations of public administration to that new situation. From time to time Governments face "with the necessity to adapt their machineries to new conditions, demands and opportunities" (Leemans 1976:1). In the case of Mongolia, such a transformation should be very innovative and 'revolutionary' because social, economic and political systems have been changed totally. For such circumstances, incremental changes would be not appropriate. As Dror (1976:135) stated "the status quo and limited change may, in some dynamic conditions, be even more risky than fargoing change".

Although the change is going to be drastic, project implementors will start it with pilot projects which will help to reduce the risk. According to Dror (1976:135), pilot experimentation and sequential decisionmaking may reduce risks. "The program will commence with pilot projects in key central government ministries to test the effectiveness of the expenditure control system and the gains from decentralized decision making. Pilot projects in one ministry and three agencies will be implemented as part of the 1998 budget. The system will be extended to additional budgetary agencies after an evaluation of the pilot projects" (ESAF). This is a good strategy.

The reform program is **not comprehensive** in comparison with the Policy Paper. It will mainly concentrate on financial and accountability aspects of administrative system.

It appears that the **theoretical basis** of this program is quite strong. This is not so-called tacit theory, but the NPM concept in combination with certain bodies of economic theory, such as agency theory and transaction cost analysis. The main features of these theories are explained in Section 2.1. However, these theories have been questioned in relation to their application to developing countries. Also they apply to industrialized countries after analysing stage of development of public and private sectors.

As to the **resources**, the main constraint would be, in my opinion, the lack of qualified staff and skilled managers. The vast majority of civil servants were trained during the socialist period both domestically in Mongolia and abroad, mainly in former USSR and other socialist countries. Their knowledge was suited to the political and socio-economic condition of that period. However, they were totally unfamiliar with the workings of market relations in a democratic society. Although the Government is systematically taking the measures to train the government employees in last 6-7 years, the demand for further training is not declining. It is evident from the fact that only 16,3 per cent of civil servants working in government agencies are undergone training programme in business and public management (see Table No.3).

Table No.3: Number of administrative employees trained in business and public management
(as of 31 December, 1996)

Organizations	No. of employees	Number of administrative employees trained in business and public management									
		Master		Diploma		Training course for				Total	
						3-6 months		up to 3 months			
		No.	%	No.	%	No.	%	No.	%	No.	%
Ministries	611	49	8,0	17	2,8	52	8,5	48	7,8	166	27,2
Other governing bodies including Secretariats of Presidency, Parliament, Cabinet, Supreme Court, etc.	396	4	1,0	4	1,0	5	1,3	4	1,0	17	4,3
Regulatory agencies	779	10	1,3	22	2,8	10	1,3	14	1,8	56	7,2
Implementing agencies (state budgeted)	202	1	0,5	5	2,5	11	5,4	18	8,9	35	17,3
Implementing agencies (self-budgeted)	46	-	-	-	-	1	2,2	3	6,5	4	8,7
Offices of Governors of provinces and capital city	789	-	-	24	3,0	31	3,9	127	16,1	182	23,1
Total:	2823	64	2,3	72	2,6	110	3,9	214	7,5	460	16,3

Source: Government of Mongolia, Cabinet Secretariat. "Handbook on Government Service of Mongolia: Statistical Overview". September 1997. Ulaanbaatar, Page 10.

One more reason for such a low percentage of trained people in civil service is the shift of civil servants to the private sector after having completed a training programme. In any case, the educational background of civil servants would be most serious constraint for achieving the reform objectives. The only institute for training of civil servants in Mongolia, the Institute of Administration and Management Development (IAMD), needs to develop its own capacity.

It appears that financial resources would be available because of downsizing the civil service and also international and bilateral donors promised to provide funds for the reform process. However, according to the ESAF agreement, the severance payment for redundant employees would be not enough. "Severance pay for redundant workers will be given, but due to financial constraints, this will generally be limited to 6 months of the most recent wages" (ESAF). Given the current average wages per month in Mongolia which is equal to US\$ 56 (ESAF), and the continuous rise in the cost of living, this payment, of course, would not satisfy them at all. Therefore, in addition to this payment, other compensatory measures such as re-training and redeployment should be considered. In fact, a comprehensive workforce adjustment programme is needed. This issue should be considered seriously because it has political consequences.

In addition to these dimensions, there are some more factors which can be considered for the analysis of the implementation strategy.

Political support to this new strategy at present is high. The Cabinet, especially the Prime Minister and the Finance Minister have a strong interest in its implementation. The Parliament is likely to support this policy since the Cabinet and the majority in the Parliament are in same political alliance with them. This policy has a strong support from the side of international organizations such as World Bank, IMF and USAID. The reform policy became a part of the structural adjustment programme. UNDP will also participate in its financing. However, for successful implementation, the reform program requires a high level of political support, ideally of a multi-party nature. It is important to have a common understanding and consensus among the actors of reform process and to have a support from trade unions. It would be important for the success of reform if there is no change in political leadership for 5-10 years.

Location of Reform Agency was changed. Responsibility for the reform process was transferred from the Government Cabinet Secretariat to the Ministry of Finance which was recommended by the IMF mission and the New Zealand consultants. The new policy will be implemented by the Ministry of Finance. It can use the financial leverage to get the programme implemented.

The Cabinet Secretariat was responsible for the implementation of the reform policy and it had a quite good organizational structure through its Strategic Management Unit and "Public Administration and Civil Service Reform" project, which was one of the components of the Government of Mongolia's Management Development Programme. The Ministry of Finance has not organized an unit for administrative reform yet. It leads to the institutionalization aspect of administrative reform.

According to experiences of other countries the responsibility for the administrative reform can be assumed "by an independent agency (Australia) or the financial and/or personnel authority (United Kingdom) or a separate ministry (France). None of these is satisfactory as they lack the full weight and position of the head of government, whose status and prestige, to say nothing of personal power, are seen as being behind

administrative reform” (Caiden 293-294). Therefore, it will be more effective if the Prime Minister assumes this function without delegating it to others. The prestige of the Cabinet Secretariat was highest among the administrative organizations of Mongolia all the time. Of course, the status, prestige and personal power of Prime Ministers contributed to this very much. However, it was not the case in relation to the Ministry of Finance. There is a popular impression in Mongolia about the Ministry of Finance that the Ministry always tends to cut budgets and its employees are sooner conservatives rather than reformists. I think it was not fault of the employees, but the very system of budgeting is incorrect and, unfortunately, it remained the same until now. This oldfashioned and outdated system of budgeting would be the biggest obstacle for the New Strategy. Therefore, this budgeting system must be changed and a new system should be introduced as soon as possible.

It is understandable that the Ministry of Finance will accept the New Strategy with a sympathy. Because it can take the power to control over almost all the public financial affairs. Maybe, this time the Ministry of Finance could become more centralized and more powerful ministry than it was even during the socialist system. The NPM is sometimes interpreted, by line bureaucrats as well as by lobby groups, simply as “neo-Treasury control, a set of doctrines which serve to reassert the power of central controlling departments and high bureaucrats against the ‘spenders’ and professionalized ‘service deliverers’ in the public service” (Hood.C and M.Jackson 1991:190). Treasury system is a centralized system. Mongolia, as a former socialist country, is familiar with pros and cons of a centralized system. We also know that decentralization without responsibility and accountability is problematic.

To avoid such contradictory problems, the right location of reform agency should be found. One option for achieving the better coordination among the actors of reform process could be the establishment of a Committee for Reform consisting of representatives of the four Powers of State, namely, the Presidency, the Parliament, the Cabinet and the General Council of Courts. This idea has already been addressed and is currently under consideration.

Table No.4: Differences between Policy Paper and New Strategy

Aspects	Policy Paper	New Strategy
Philosophy	Effective, efficient, accountable and responsive public service	Efficiency, financial control and financial accountability
Scope	Systemwide macro	Systemwide but through the leverage of finance
Change Strategy	Comprehensive change but gradual implementation	Incremental change concentrating on finance and accountability
Main focus on	Both policy and implementation	Implementation
Location of Reform Agency	Government Cabinet Secretariat	Ministry of Finance
Training implications	Comprehensive	Limited but of a very high order
Important Disciplines	Public Administration, Public Sector Management	Institutional Economics, Scientific Management

4.2. The problems and issues to be faced in the implementation of reform policy

In the course of implementation of this new policy some conflicting issues with serious consequences can be raised.

As mentioned much will depend on the personnel. There is a big demand for managers who not only have business management skills, but also understand clearly the very idea of reform and fully committed and ready to devote themselves to its implementation work. There are two ways of having such managers. They can be prepared by means of training or they can be attracted from the private sector. The Government should use both methods. The first one will require certain resources, including time, training facilities, staff and budget. The advantage of the second method is that the time could be saved. However, in order to attract managers from private business the Government should find a financial resource to pay them sufficient salary. Such a resource can be found by downsizing the civil service. Then a consensus should be reached about a new salary system. It is doubtful to expect that best business managers will join the civil service even though their salary would be high enough. They will hardly join the civil service. Instead, some intermediate managers could join the public service, but not necessarily because of salary. There are possibilities for managers of taking advantage from the administrative post they hold.

Suppose managers can be well paid since they constitute a small part of total civil servants. But what about ordinary civil servants? Will they be well paid as well? If it is

not possible to pay them sufficient salary then there is a danger of losing their motivation. On the other hand, this will increase salary bill.

Attracting the managers from private business will require a refusal of career system at least in the top level of bureaucracy. This will also lead to the loss of motivation among civil servants because their future career promotion becomes uncertain. One should not expect much from the people who have not proper motivation. In this case, staff mobility will likely to be increased. There is a danger to break up of officers' 'army' unless the above problems be solved in a balanced way.

Since the managers will have an authority to decide what inputs they need to achieve the stated objectives, it will create a contradiction to force upon them to recruit only those people selected by the civil service entrance examinations. Hence, the need for the civil service entrance examination will be questioned which in turn will lead to the collapse of career system.

In the case of Mongolia where the governments will have to be changed in relatively short period of time depending on the results of multi-party democratic elections, the civil service career system may have an important role for the continuity and stability of state policy. However, the implementation of New Strategy based on NPM concept will require a break up of career system and a shift towards the civil service position system. It is true that during the socialist regime there was no career system in Mongolian civil service. But there was so called 'one party ruling system' and its personnel policy, or, in other word, there was another kind of 'career system' .

Thus, the new policy will require that the decisions should be taken on some important problems of civil service such as amendment of the Law on Government Service (Civil Service Law), abolishment of career system, fixed salary rates and etc.

One more conflicting issue is that the decentralist biases of 'free to choose' are incompatible with the centralist biases of 'free to manage'. Whereas the managerialist tradition recommends a degree of centralised control and top-down implementation, public choice theory puts a strong emphasis on devolution and decentralisation. The strong managerial and financial power will be centralised at the hands of the State Secretaries and the Chief Executives. The Ministry of Finance and the Treasury will have even more control and power over the government financial resources.

Abolishment of input control may also contradict the newly introduced government common service system which was explained in Section 3.2.4.

The next point I would like to address is that the implementors should take into consideration all possible negative consequences of the reform policy which is based on the NPM concept. NPM concept has several contradictory aspects and some serious shortcomings. Thus, while introducing the reform policy, reformers should be flexible keeping in their mind the specific features of public service.

Not all the tasks of public management are identical to those in the private sector. "The performance of public service is hardly comparable with that of the private sector because there is no private counterpart for many government functions, such as national security and internal law and order. Although private firms operate mainly in efficient and profitable sectors, the public sector is often left with socially unavoidable but non-profit activities, such as food distribution, health care, and housing for the poor. It is quite unfair to solely apply the criterion of efficiency to the public sector because of its less specified objectives, its qualitative outputs, its emphasis on distribution and equality, its accountability to the different pressure groups, and so on. Government cannot be run like a business...

Without some basic preconditions ensured by the public sector, such as external security, law and order, financial stability, and conducive foreign relations, it is almost impossible for private enterprises to function effectively. There are many goods and services, such as roads and highways, electricity and water supply, research and development, and education and training facilities, that are produced or maintained by the public sector but significantly benefit private firms" (Shamsul Hague 1996:521).

Also component theories of NPM have been challenged on numerous grounds. For example, the idea that competitive self-interest dominates human nature is highly questionable. Human beings are also influenced by many other motivations and values. Frequently people do not act opportunistically or violate contracts, even when the potential gains from shirking or free-riding are great. Bureaucrats are not solely interested in maximizing their departmental budgets. They are also influenced by such things as credibility, reputation, integrity, duty, professional standards, and doing a good job. In short, human beings are not merely economic beings, but also political, cultural, and moral beings.

Moreover, replacing relational modes of contracting (based on high level of trust) with classical contracts (which assume lower levels of trust) may actually reduce the degree of trust and commitment. Consequently, higher agency costs and transaction costs may be incurred. To compound problems, whereas trust can be quickly undermined, it can take years to rebuild. Thus, while it may be relatively easy to move from relational to classical contracting, it may be much more difficult to move back the other way (Boston et al. 1996:31).

Results of survey conducted in some industrialized countries, where NPM was implemented, are starting to show the negative consequences of the NPM concept. For example, "recent primary research in southern England and the Midlands shows that the NPM approach can reinforce social exclusion, regardless of its rhetoric of decentralization and responsiveness" (Mackintosh 1997). In the light of increasing poverty, the social exclusion will worsen the situation.

CONCLUSION

All kinds of models have their own pros and cons. People tend to use those models which suit their needs and tend to praise them to the skies. But, citizens do not benefit equally from the using such models. However, in this research the question is not whether the models are desirable or not but whether they are feasible and fulfil the conditions of a successful strategy and contents relevant to local environment.

In fact, both the Policy Paper and the New Strategy were prepared according to the recommendations by foreign consultants. The Policy Paper was based on the ideas of role definition, and separation of policy formulation from its implementation, which are the main components of the NPM. Similarly, accountability and output oriented approach of the New Strategy are the also main components of the NPM. Thus, the main ideas of both the Policy Paper and the New Strategy are the component ideas of the NPM concept.

Furthermore, it is widely recognized that NPM is most fashionable model of the time. It is also recognized that New Zealand is the country which implemented the NPM concept most successfully. Therefore, nothing is wrong to study the experience of New Zealand in this field and apply it to your own specific condition. Maybe it is even better, in terms of coherency, to follow the model of one particular country instead of taking experiences from many countries with different conditions. However, there is a need to study its consequences first. One should not forget that the model successfully implemented in one country does not necessarily be applied in other countries which have different environments. The model will work when it fits to the environment, and it will not work if it does not fit to the environment. "Because the circumstances of every country or indeed of any administrative reform system that needs to be reformed differ for none is identical with any other, administrative reform needs to be tailored to the specific fit. Ideas, laws, even people can be borrowed but exactly how they operate depends on the specificity of the situation" (Caiden 287).

New Zealand has long experience of civil service reform starting from the Civil Service Act 1866 and the Civil Service Reform Act 1887 (Boston et al. 1996:53). The introduction of the current model of public management with the strong emphasis on finance and accountability, is the last stage of such a long reform process in New Zealand. In a word, all the necessary prerequisites for such a revolutionary reform were already in place.

However, the situation in which the public administration reform is going on in Mongolia is just opposite to that of New Zealand. To make this quantum jump its main prerequisites should be in place which will take a quite long time. Although Mongolia can skip some stages of such a long process, it needs a broader approach of administrative reform than that of the New Strategy. Mongolia needs to reform not only the financial and accountability aspect of public administration, but the entire system of public

administration as a whole. Thus, the approach of the New Strategy is a partial approach emphasizing mainly financial aspect.

This leads me to the conclusion that the implementation of New Strategy could be supplemented by continuing the Policy Paper approach. However, some contradictions should be removed before starting to implement them simultaneously. As Herbert Simon noted it is better to do right things badly than wrong things well. Thus it is better to improve a policy design and implementation strategy before its implementation started. Then it could be possible to do right things well.

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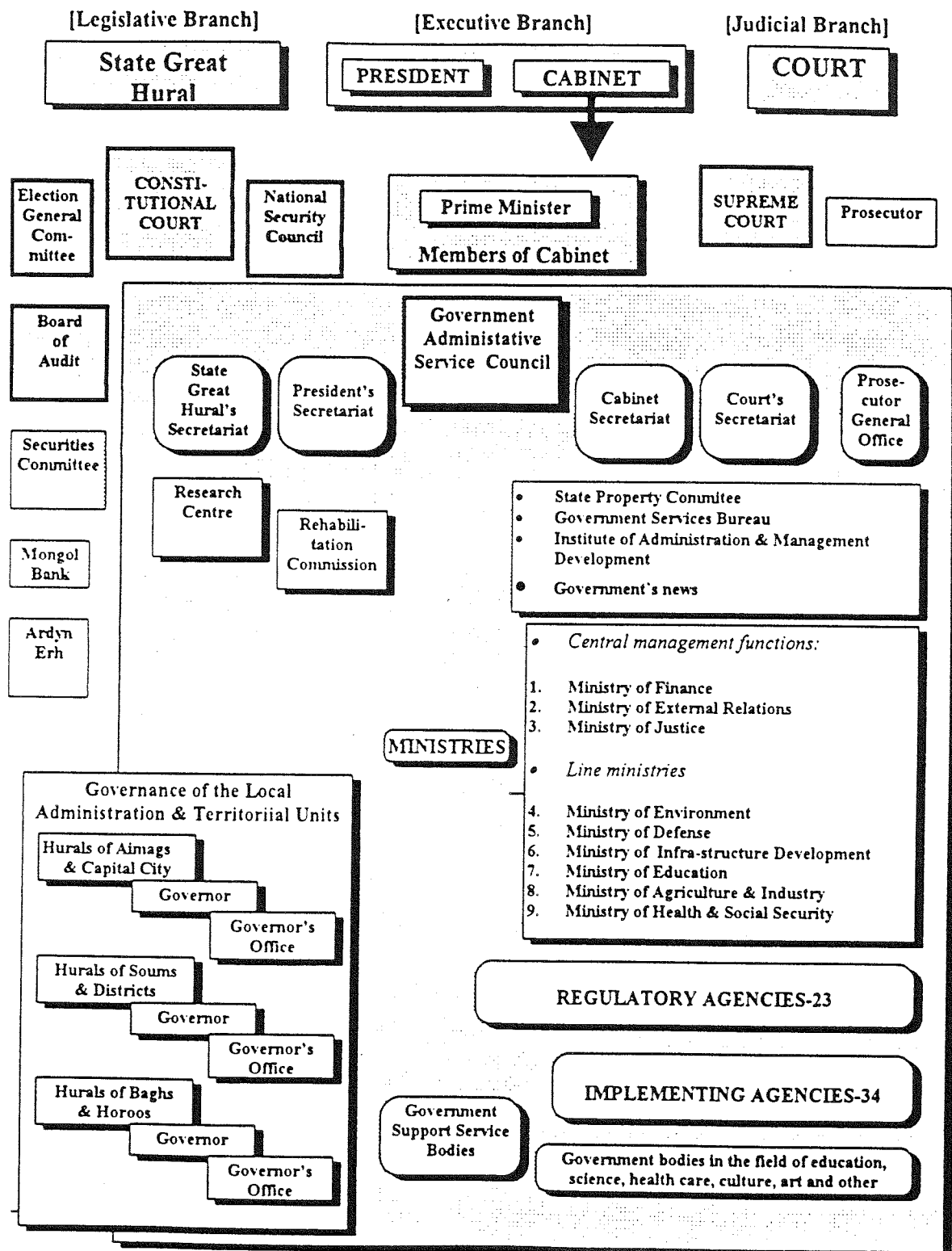
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OUTLINE OF THE STRUCTURE OF THE GOVERNMENT OF MONGOLIA¹



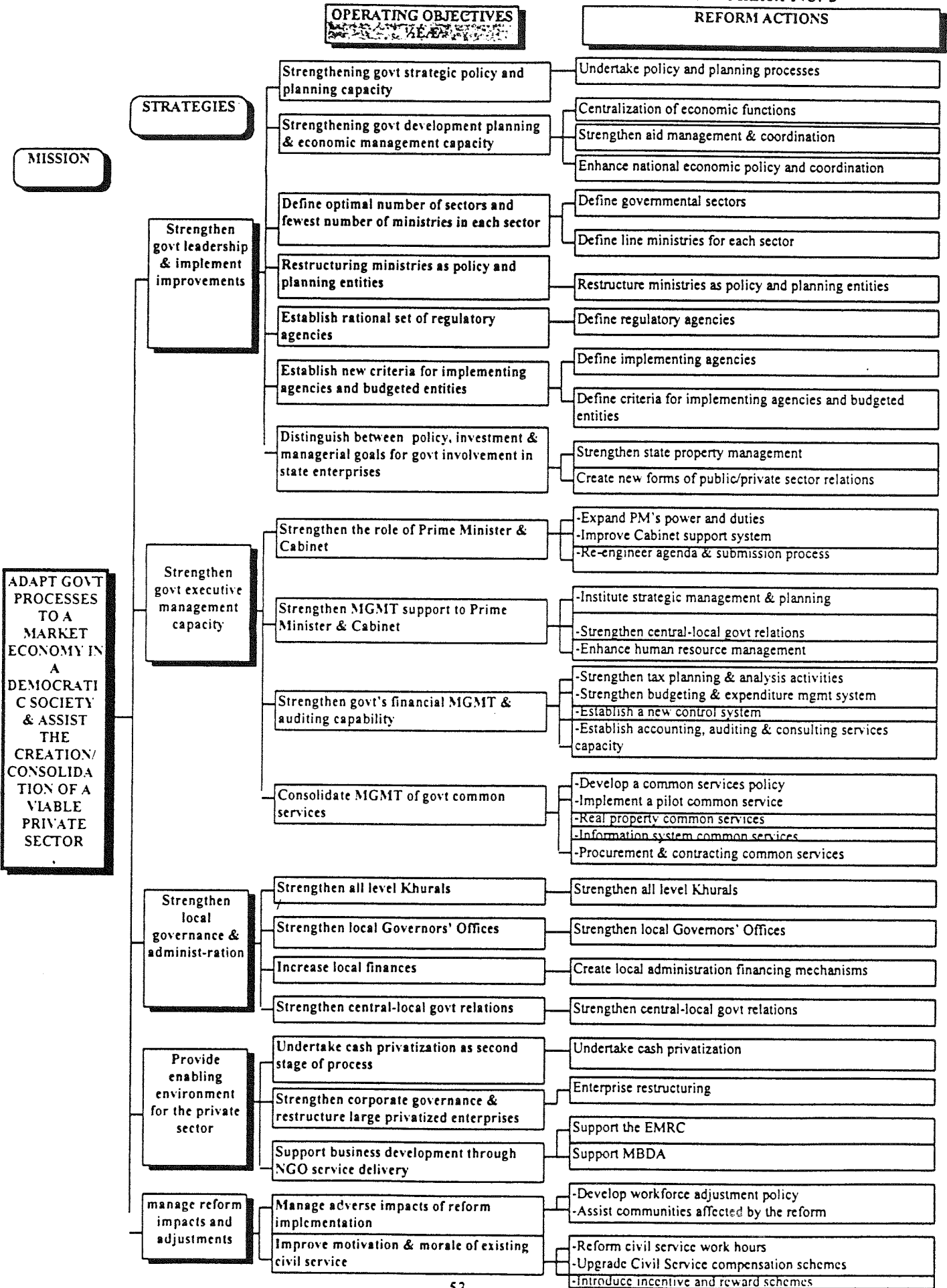
¹ Source: "Handbook on Government Service of Mongolia: Statistical Overview". September 1997. Ulaanbaatar

Significant features of the New Zealand civil service reform

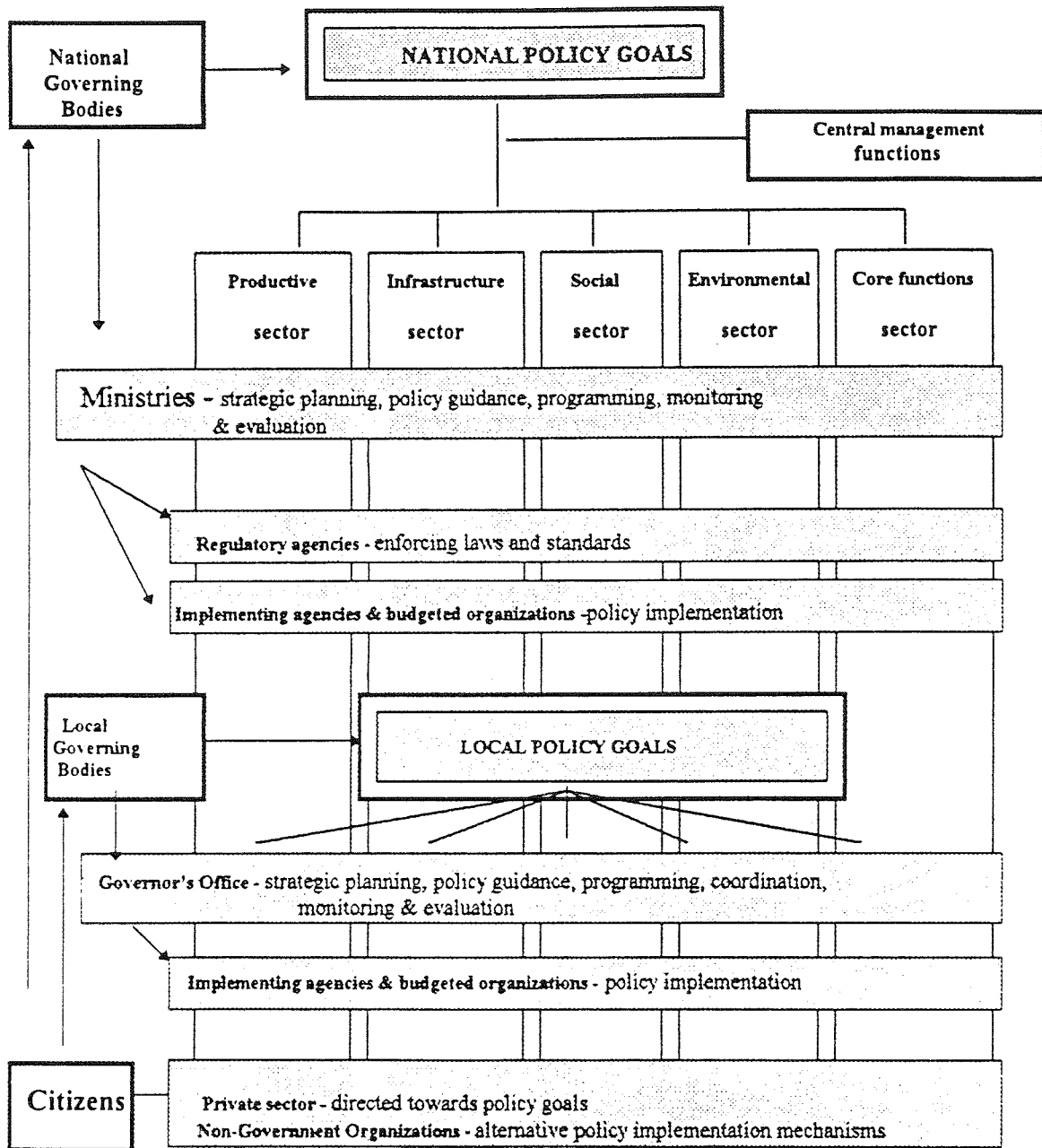
<i>Chief executives' contracts and performance assessments</i>	Permanent tenure for the heads of government agencies was changed so that apolitical chief executives were appointed for five-year terms. Their salaries were raised to be in line with the private sector market rates for their skills. Their performance is assessed annually, and there are provisions for bonuses for good performance and for removal for poor performance. Five years of good performance may result in a further contract of three years being offered. The performance assessment for chief executives is done by the State Services Commission.
<i>Performance agreements</i>	A performance agreement is prepared between each chief executive and his or her minister, detailing the services that are to be provided in the course of a financial year. These services are described as outputs and are based on the concept that civil servants are responsible for delivery of specified outputs to their ministers. Ministries [ministers] in turn are responsible for the outcomes - ultimately to the electorate. The performance assessment is done by reviewing delivery of outputs as described in this ex ante performance agreement. New Zealand's system places a great deal of emphasis on prior specification of output requirements and less emphasis on ex post assessments of performance indicators.
<i>Distinguishing purchase from ownership interests</i>	A critical element in the definition of performance is the distinction between the government's interests in a government agency - as an owner looking for efficient use of resources invested, and as a purchaser looking for the delivery of agreed services. This distinction has proved powerful in encouraging ministers and officials to think about service delivery, on the one hand, and effective resource use, on the other. It also facilitates consideration by ministers of alternative sources of supply of desired outputs, and their relative prices, and decisionmaking about resource use on a basis that is conceptually distinct from the question of how well a particular agency is being managed. Budgetary discussions often involve proposals to shrink the balance sheet of an organization by withdrawing capital from it while expecting service delivery to be maintained through increased productivity.
<i>Audited statements of service performance</i>	The Auditor-General audits not only the ex post statements of account for each department emerging from the system, but also a Statement of Service Performance, which comments on whether the services agreed to were delivered.
<i>Transfers excluded from chief executive accountability</i>	Chief executives' accountabilities were confined to things they have control over, transfer payments and grants that they are passing on to third parties enter their performance agreements only in that they are required to dispense those funds efficiently.
<i>Freedom from input controls</i>	Chief executives were freed from almost all controls over their inputs. They were given the freedom to buy and sell assets within the department's level of capital. Under the Public Finance Act they are designated as chief financial officers to ensure their liability for the finances under their control and are given extensive formal delegations from the Minister of Finance through the treasury to manage their finances.
<i>Parliamentary appropriations for outputs</i>	The appropriation process operates on an accrual basis with separate appropriations for resources for the purchase of outputs, for injecting capital into the balance sheet of a department, and for transfer payments. There remains a parliamentary control of cash at the aggregate level.
<i>Chief executives as employing authorities</i>	The chief executives were established in law as the employing authority of staff under their control, whereas previously the state services commission had been the employer of all civil servants.
<i>Performance information</i>	All departments have installed some kind of performance management system for staff training, development programs, and the like. A comprehensive system of financial and other performance information was developed, which is reported at different levels of aggregation to different principals: <ul style="list-style-type: none"> • The most disaggregated information is reported to the minister associated with each chief executive. • The "purchase agreement" is available to the treasury, to other ministers, and to central agencies in preparing the annual budget and in considering longer-term financial planning.

	<ul style="list-style-type: none"> • At the next level of aggregation, information would be available to the cabinet on an ad hoc basis to furnish additional information for its consideration in preparing the budget. • For parliamentary appropriation, outputs are aggregated to the output classes. • Parliament is also presented annually with a corporate plan for each department, which summarizes both the output and ownership plans that are scrutinized by parliamentary committees. • At the highest level of aggregation a full set of accounts consolidating the entire government is prepared .
<i>Comparability of performance information</i>	The system was designed to facilitate comparisons of efficiency and effectiveness between government activities and between the government and the private sector. Previous regimes had involved ad hoc accounting conventions and hidden subsidies, which made comparisons almost impossible.
<i>Strategic plans linked to detailed outputs</i>	The whole system of accountability and performance assessment was intended to enable the government to develop and implement strategic objectives with some assurance, which had never before been possible. The whole government system would be able to gear itself to these priorities, and information would be available to assess whether services were being delivered as planned.

Source: Scott, G. 1994. Strengthening Government Capacity to Manage Human Resources: The New Zealand Experience. In *Civil Service Reform in Latin America and the Caribbean: proceedings of a conference*. Edited by Shahid A. Chaundry, Gary J. Reid, and Waleed H. Malik. World Bank technical paper, No. 259. World Bank: Washington, DC

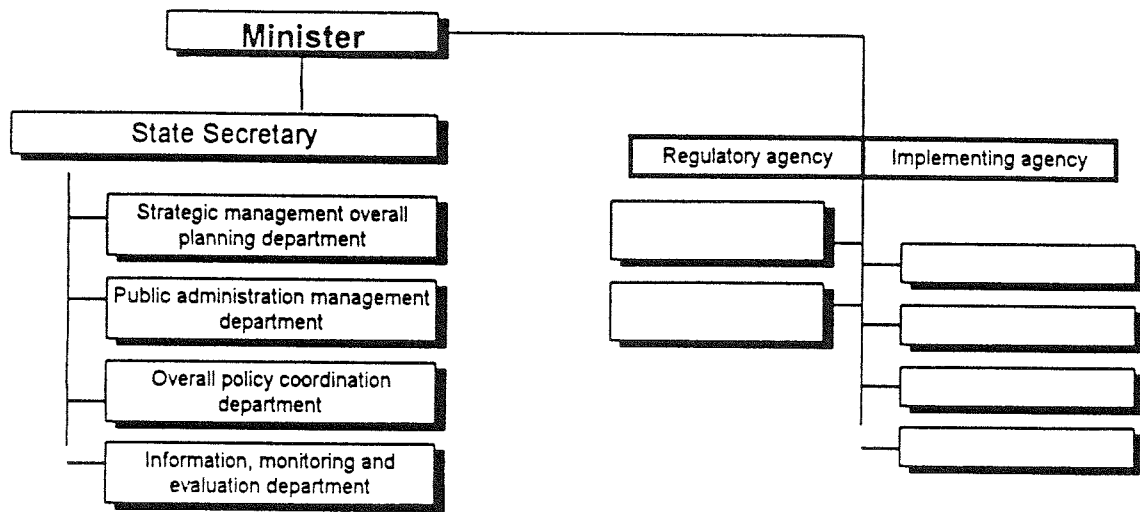


A Business Model for the Government of Mongolia

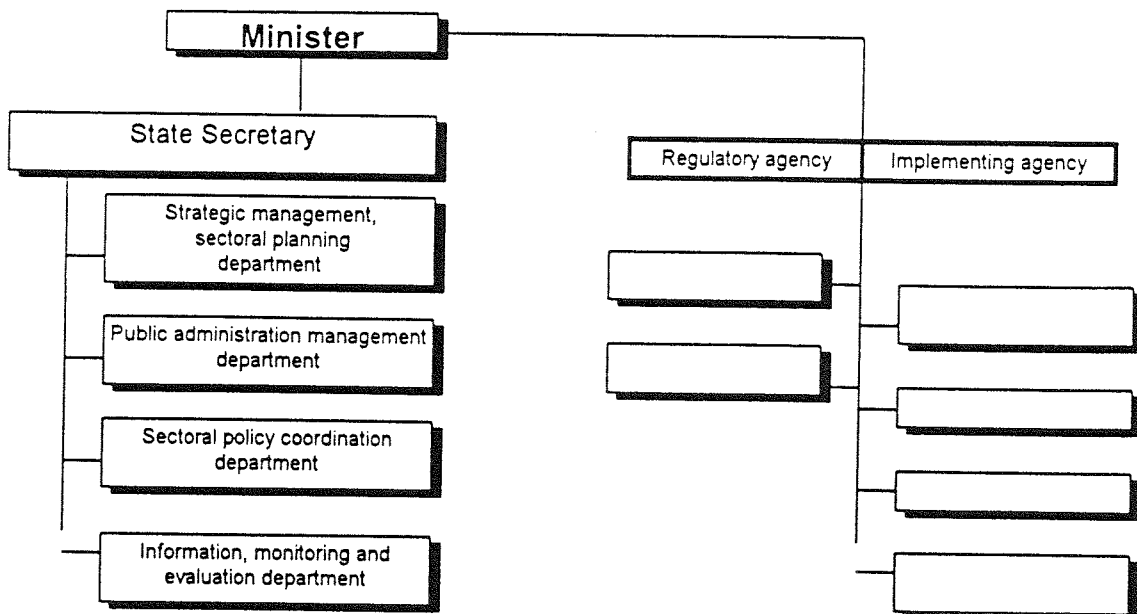


Source: Resolution No.38 of State Great Khural of Mongolia. "Mongolian State Policy on Reforming Government Processes and the General System of Structure" Ulaanbaatar: 21 May, 1996.

Model of the Organizational Structure of Central Ministries



Model of the Organizational Structure of Line Ministries



Source: Government of Mongolia. Methodology and Recommendations on "Business Strategy and General Model of Structure for Ministries" Central Project Team Report, 1997

