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Don't Try This at Home? A New Zealand Approach to Public Management Reform in Mongolia

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ABSTRACT: This article reports on proposals to implement a form of New Zealand's radical public management reforms in Mongolia, a state in transition from a Russian public administration model. The transferability of New Zealand style financial management reforms in particular is discussed in the context of a comparison of the preconditions and risks of centralized and decentralized financial management. Some observations are also made on the change process in developing or transitional economies contemplating major public management reform.

INTRODUCTION

Throughout much of the developing world, there is a general sense that governments are failing to meet the basic requirements of an organized state. The 1997 World Development Report speaks of a "clamor for greater government effectiveness [which] has reached crisis proportions in many developing countries

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where the state has failed to deliver even such fundamental public goods as property rights, roads, and basic health and education". (World Bank 1997: 2).

The failure of governments to deliver results has its origins far beyond the instrumental problems of public management. It has to do most basically with the ability and willingness of rulers to confront and deal with basic political issues of democracy, human rights, personal morality, the rule of law and the role of government, markets and civil society. But there is widespread agreement that the competence of the state in this broadest sense is significantly undermined by lack of state capacity.

Most of the governments with ineffectual public management have—formally at least—highly centralized systems. There is little evidence therefore that these are contributing to the basic requirements of good government. Is this due to a more fundamental malaise than a choice of the form of governance, or could it be that centrally-managed bureaucracy is itself a significant impediment to good public management? More particularly, does "the new public management", with its refocusing of governments on results and accountability through clear objectives, devolution of managerial authority and principles of customer service, provide any lessons for developing countries?

LEARNING FROM THE NEW ZEALAND REFORMS

The changes to public management in New Zealand over the last decade have excited a great deal of interest in other countries because of the radical changes made to the structure, governance and basis for management in government agencies. The New Zealand reforms embody many of the elements of the so-called "new public management", particularly in budgeting for results and devolution of management control over inputs. Similar changes can be seen in other countries, particularly the United Kingdom and Australia. But no government has gone as far and as fast as New Zealand in implementing change. It is widely acknowledged that the New Zealand reforms are unique in their comprehensive nature and coherent ideological basis.

There is now both a significant academic and official literature on the reforms themselves[1] and some evaluations from non-New Zealand writers. Two recent reviews are not uncritically admiring but return basically positive evaluations. A study by World Bank staff (Campos and Pradhan 1997) reported significant improvements in aggregate fiscal discipline, prioritization of public expenditures and technical efficiency of public sector outlays in both New Zealand and Australia after reform initiatives. The study identified some common characteristics in those two countries' reforms such as improved transparency of specification and reporting of results, considerable devolution to line agencies and binding commitments to aggregate fiscal discipline. Schick was commissioned by New Zealand government officials in 1995 to undertake a review of the reforms.

He made some significant recommendations for change but concluded that the reforms had "greatly improved the efficiency and quality of public services" (Schick, 1996: 86).

Where this writing touches on the transferability of the New Zealand model, however, it tends to be cautious or skeptical. Bale and Dale observe that "[i]t is difficult to draw conclusions about whether specific practices adopted in New Zealand are applicable to developing countries. If the cultural and political environment is too dissimilar, the applicability of these practices may be limited." (Bale and Dale, 1998: 116). The World Bank's World Development Report 1997 concludes that ". . .what is feasible in New Zealand may not be workable in many developing countries" (World Bank 1997: 87). A 1998 article by Schick is bluntly titled "Why Most Developing Countries Should Not Try New Zealand's Reforms." Both Schick and the World Bank argue that governments must be confident that managers have the disciplines and skills necessary to operate in a devolved management structure before gradually loosening the bonds of central control (see Schick, 1998: 14 and World Bank, 1997: 91).

PROPOSED CHANGES IN MONGOLIA

As some writers have also observed, while the mantras of the new public management are heard in many countries, the New Zealand model—the most thorough-going representation of the NPM—has had limited influence on public management reforms in other countries. Very few countries have explicitly adopted any of the elements of the reforms which are generally regarded as most characteristic of New Zealand.

One exception is the Republic of Mongolia, which held its first democratic elections in 1990 after seventy years as a client state of the Soviet Union. In late 1997 the Mongolian government introduced a draft law into the Parliament that replicates many of the characteristic features of New Zealand's financial management reforms. Since its introduction, the majority coalition has had a reshuffle in which both the Prime Minister and the Minister of Finance, who were significant sponsors of the legislation, were replaced. At the time of writing, the draft law was stalled in the Mongolian Parliament but work is apparently proceeding on pilot implementation of some reforms in selected agencies.[2]

Anything written about future Mongolian public management reform based on the current initiatives is therefore speculative. The purpose of this article is to provide some background to the Mongolian reform initiatives; and to use the proposed reforms as a basis for a discussion of some of the factors which need to be considered in transferring reforms of New Zealand's type into a different environment, particularly a transitional economy such as Mongolia's. This article focuses on the implications of centralized and devolved management of aggregate budgets for control of expenditure and achievement of results. Space does not

permit an examination of other significant elements of reform, such as the reorganization of the Mongolian bureaucracy on an agency model or the attempts to create a modern civil service.

THE MONGOLIAN ENVIRONMENT FOR REFORM

Mongolia is the heartland of the Mongol people who for centuries dominated much of the vast steppe stretching from Siberia to Eastern Europe. The country covers an area about two-thirds the size of Western Europe with a population of about 2.5 million. For 70 years until 1990 Mongolia was effectively a client state of the Soviet Union, ruled by the Mongolian People's Revolutionary Party (MPRP). Growing popular unrest led to a peaceful transition to democracy in 1990. The MPRP retained power, led by a new president, but set about a program of political and economic liberalization. After the adoption of a new constitution in 1992, the MPRP won a comprehensive victory at the polls and continued with its reformist program. In June 1996 further elections were held which resulted in a victory for the Democratic Union Coalition (DUC), led by the National Democratic Party. The new government quickly announced its intention to pursue further measures of market-based reform including price liberalization, fiscal and banking reforms and a recharged privatization program.

For 60 years, until the early 1990s, the economy of Mongolia was centrally planned on the Russian model. Financial management and public administration accordingly reflected a purely nominal distinction between the Party and government and between government and organized economic activity. In particular, budgeting and financial management were subordinated to the requirements of the National Economic Plan. The basic role of the Ministry of Finance was to give effect to a budget which would implement the national plan. Prices were largely set administratively (Sanders, 1987: 110).

Andic (1994: 62–64) identifies the problems with Soviet financial management systems, stemming from their instrumental role in national planning, in transiting from a command economic system. Most could be similarly identified in the Mongolian system.

They include:

1. *Inadequacy of expenditure classification:* The Mongolian budget heads were a mixture of functional and economic classifications, recurrent and capital items, or classification by administrative unit;
2. *Multiple funds:* The number of separate funds with their own accounts at the central bank and not subject to direct budgetary control has been variously reported from 12 to 22 (author's notes);
3. *Inadequacy in monitoring:* The Ministry of Finance—although formally responsible—has had very little capability to monitor expenditure; reporting has

usually been months or even years in arrears; the government substantially depended on the central bank for cash management and for its up-to-date financial information;

4. *Difficulty of imposing aggregate budget discipline:* For various reasons—high rates of inflation, unrealistic budget ceilings set by the Parliament, the failure to consider operating consequences of planned investment decisions—budgets have been unrealistic and rebudgeting could be as frequent as monthly. Additionally, cash control was made difficult by the multiplicity of funds and the inability to control commitments made by individual agencies.
5. *No external financial audit capability:* Under Communist government, a State Audit Board and People's Audit Committees existed formally "to audit the compliance of decisions made by the Government and public administrative entities with the political lines of the party, and it was directly accountable to the party" (Government of Mongolia, 1996b: 1); financial audit in the Western sense (where it existed) was seen as part of the control function of the Ministry of Finance.

EVOLUTION OF THE MONGOLIAN PUBLIC MANAGEMENT REFORM PROGRAM

Reform of public management formed part of the comprehensive program of economic and financial reform and intensified following the electoral victory of the DUC in 1996. The official Mongolian government line on public sector reform was set out in a Parliamentary paper (Government of Mongolia, 1996b). It included further steps towards privatisation, in the context of other moves to strengthen the market economy by developing the necessary legal infrastructure and regulatory framework; reduction in the cost of government including downsizing the civil service; a new organizational structure for central government based on policy and planning Ministries with oversight of executive agencies responsible for regulatory and service delivery functions; strengthening accountability and control through Ministry and agency business plans and new financial management systems.

The reform strategy was prepared with the assistance of several donor agencies including the Asian Development Bank, the UNDP and USAID. A UNDP adviser was attached to the Cabinet Secretariat and assisted with the preparation of the strategy and its early implementation.

The English-language version of the statement includes much managerialist language, for example:

> The role of the Government must be and be seen as leader and catalyst in the provision of services, rather than a "doer". The Government must ensure that managers manage within an appropriate accountability framework. . . . The management values of this new culture are: customer oriented services (defining the customers, ensuring their

needs are met); 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, judgment, discretion and excellence.

THE CURRENT FINANCIAL MANAGEMENT REFORM PROPOSALS

The Government's statement was intended to integrate market reforms, a reorientation of the role of government, central government restructuring, new systems of accountability and control and budgeting and financial management into a unified reform strategy. Steps to develop business plans in early 1997 were, however, proceeding more or less independently from plans to develop the government financial management system. During 1997 the Prime Minister's Office began to take an interest in the New Zealand public management reforms as a means of bringing together management accountability and financial management in a more systematic way. With the assistance of New Zealand ODA, the Government engaged several former New Zealand Treasury officials who had been instrumental in the development of New Zealand's financial management system as advisers on further reform. (Reid 1998: 6). During the summer of 1997, these officials assisted the government to draft a Public Sector Management and Finance Law. The bill was introduced into the Parliament in November 1997 (Government of Mongolia, 1997).

With due allowance for Mongolian government structure and terminology (for example it covers local government as well as central), the draft law closely tracks the relevant New Zealand legislation. It is, in effect, an amalgam of provisions which in New Zealand are covered by four key pieces of legislation: the State Owned Enterprises Act, the State Sector Act, the Public Finance Act, and the Fiscal Responsibility Act.

In summary the draft Mongolian law provides for legislated medium-term fiscal objectives and annual publication of fiscal plans consistent with these objectives; government appropriations for purchase of outputs (goods and services) from government agencies; full accrual accounting (including balance sheets) at all levels of government; capital charges on net assets employed by government agencies; devolved managerial authority over operating expenses and employment of staff; performance agreements negotiated between Ministers and their chief executives; a State Services Council which selects a short list of candidates for vacant chief executive positions for decision by Ministers, holds the employment contracts of the chief executives and assesses their performance; and a State Audit Board which conducts annual attest audits of all government agencies.

Reid points out that there are some differences between the Mongolian draft and the relevant New Zealand law but that—with the possible exception of a

provision for Ministers to account directly to Parliament for the performance of their portfolios (a provision not paralleled in New Zealand law)—"it is hard to argue that any of the legislative differences are not in accordance with the underlying conceptual framework" (Reid, 1998: 11).

PUBLIC MANAGEMENT REFORM AND INTERNATIONAL TRANSFER OF KNOWLEDGE

Reforms to public management play a large part in many bilateral and multilateral aid programs. Public management components for example are frequent in World Bank loans or credits. In the Bank's fiscal 1994, nine out of ten new credits either had public management conditions attached or had components to assist public management improvement (Laking, 1996: 44).

The term "public management" or "public sector management" as it is employed by international agencies has a very broad focus. In the World Bank's financing, the objectives of public management components can range from basic governmental capacity building (strengthening civil services or budgetary management); to privatizing or downsizing government functions; to improving the underlying institutional framework (the justice system, economic regulation or financial institutions).

Recommending (or requiring) changes in public management is a task to be approached with due humility. The World Bank's own assessment of the performance of a 1995 cohort of its projects with a substantial public management component was that they rated only slightly less satisfactory on average than the whole Bank portfolio, but that projects rated high in terms of "demandingness, complexity and riskiness" (Laking, 1996: 46).

There are two broad categories of reasons why it may be difficult to transfer public management experience from country to country and particularly from developed to less developed or transitional societies:

- The general difficulty of "institution building"—providing the "institutional software" of law, practice and organizational structures (see for example Moore, 1994);
- Public management is intimately bound up with the nature of politics and power in the host country: significant and lasting changes in public management can therefore rarely be achieved without some risk to existing patterns of power, authority and privilege.

Thus, in considering the transplantation of public management practice between countries we need to consider the nature of the plant but also the skills of the gardener and the quality of the soil. If there are indeed universal principles of good public management (a proposition itself open to debate), to what extent is

the successful implementation of these principles dependent on the institutional environment into which they are introduced? Are some forms of public management less likely to be successful in developing than in developed countries?

CONTEXTUAL RISKS IN REFORM

The issues of transferability raised by writers on the New Zealand reforms seem to fall under three major headings:

1. *The importance of the surrounding public and private sector institutions*: Bale and Dale refer to New Zealand's "tradition of a politically neutral, relatively competent civil service; little concern about corruption or nepotism; a consistent and well-enforced legal code, including contract law; a well-functioning political market; and a competent, but suppressed, private sector" (Bale and Dale, 1998: 116). Schick argues that in many developing countries one can place little reliance on formal rules of any description. Management informality in the public sector will reflect attitudes to the rule of law in the market economy: "[i]t is highly unlikely that government will operate by the book when rules and regulations are routinely breached in private transactions" (Schick, 1998: 9). New Zealand, Schick says, has effective formal procedures for setting budgets and managing the civil service. "In other words, it had a formal public sector. This is an essential precondition for adopting elements of the New Zealand model" (Schick, 1998: 13).
2. *The sophistication and complexity of the New Zealand model:* Commentators have particularly remarked on the steep learning curve and potential high transactions costs involved in moving to a contractual model similar to New Zealand's where the focus of control is outputs rather than inputs. The World Development Report cautions that "[I]t takes considerable capability and commitment to write and enforce contracts, especially for difficult-to-specify outputs in the social services" (World Bank, 1997: 87). Similarly Campos and Pradhan consider that:

> A focus on improving technical efficiency in the manner of New Zealand involves a tremendous amount of negotiations. Individuals become fixated on the outputs upon which they will be judged. This introduces a considerable degree of negotiations and discussions both on what outputs will be used and on whether those outputs have indeed been achieved.... (Campos and Pradhan, 1997: 443)

3. *The risks inherent in devolution of managerial authority:* Writing on devolution frequently reflects a fear that, when formal rules are absent or largely ignored and if there is little effective monitoring of departments or power to take corrective action, it will lead to loss of fiscal control and increased risk of corruption. The World Development Report for example comments that "... experience ... suggests that moving from a highly centralized, transaction-

specific control regime to a more decentralized one can encounter resistance." (World Bank, 1997: 91–2)

SOURCES OF RISK IN BUDGETARY MANAGEMENT

A "good" generic budget management system delivers the results that the government seeks at least cost. This objective assumes that the government has correctly specified what it wants to achieve with the budget, that the cost of these intentions is correctly reflected in the budgeted expenditure, that the specified tasks and authorities of execution are properly allocated to competent officials and that these officials can be held to account for what they do. Execution cannot be isolated from these other phases of the budget cycle since it depends on decision-making for an executable budget and it supplies information for review of budget achievement and future objectives.

In summary the objectives of the execution phase are to deliver the results required by the government; purchase inputs at least cost; stay within budget; and spend money only for the purposes for which it was appropriated.

The objectives in this triangular relationship—effectiveness, efficiency and legality—are not necessarily mutually consistent. For example, achieving the results the government requires may not be possible within the budget. Purchasing input at least cost may not be possible by sticking to the rules regarding what money can be spent on. Indeed, budgetary management may be mostly about how the objectives can be made less incompatible.

The writers who compare devolved budget management systems such as New Zealand's with a more centralized alternative mostly assume that in the latter most payments will be authorized centrally and that operational expenditure (purchases of goods and services by government, as opposed to transfer payments, for example) will be authorized in input rather than output categories. These assumptions reflect most "classical" European and British expenditure control systems, although appropriation formats and details of payment authorization have varied from country to country. Former Soviet Union countries (and those who adopted Russian financial management systems—such as Mongolia) on the other hand are emerging from a system where control was hardly exercised at all over payments, since "payments" were by and large an irrelevant concept.[3]

Each of the objectives listed above—proper use of authority, efficient use of resources and effective delivery of services—is at risk to ineffective budget management. Devolved and centralized budget management systems handle these risks in different ways, summarized in Table 1.

In addition, centralized and decentralized systems each carry their own peculiar secondary risks.

Table 1. Risk Management in Devolved and Centralized Budget Systems

Objectives and risks	*Devolved (NZ) budget management*	*Centralized budget management*
Objective: Ensure lawful expenditure Risks: Unauthorized over-expenditure or virement; misuse of authority: fraud, theft, patronage, tribute, reciprocal favors	Monthly reporting from agencies on use of authority; external audit of financial statements and control systems and test audits of compliance; sanctions for overspending; control over release of cash to bank accounts.	Prior central authorization of use of expenditure authority; detailed prescriptive rules for exercise of authority; external audit of compliance; sanctions for overspending; direct control over payments.
Objective: Efficient input use Risks: Waste of resources	Authority to managers to make input decisions on staffing and other resources; tight aggregate budget control—assumed "productivity dividend"; audit of purchase and contracting practices; full (accrual) budgeting and accounting for asset costs.	Centralized purchasing; common services (accommodation, transport, cleaning, maintenance etc); central control of staff establishments, pay and promotions; special procedures for asset acquisition and disposal.
Objective: Deliver services to specification Risks: Government policy outcomes not achieved	Personal and agency accountability for meeting output specifications; quarterly reporting of output achievement; audited statements of service performance; personal reward linked to achievement of output targets.	Annual reporting of actual against budgeted expenditure by input category; annual reports of achievements from agencies/ Ministers.

In centralized input focused systems:

1. Expenditure authorization can be subject to delays and arbitrary changes to authorities and expenditure limits. This may result in private agreements between budget authorities and spending agencies or simple flouting of the rules for authorization by creating commitments and unpaid bills. Central agencies may respond by requiring prior authorization of commitments or dealing direct with major suppliers.
2. Central purchase of goods or supply of common services can lead to delays and inefficiencies in procurement and supplies of lower quality and higher cost than in a competitive market. Central control of establishments, hiring and employment conditions can result in agencies being unable to employ staff required to do the job or being unable to dismiss staff whose performance is unsatisfactory. Detailed rules for purchasing may add to agency compliance costs without significantly reducing operating costs. Generally speaking, the more rules imposed on agencies purchasing inputs, the more likelihood that costs will be increased rather than decreased. Agencies also have to reconcile input controls with their operating objectives.
3. Typically, acquisition of assets through distinct budgetary procedures with no

accounting for cost of capital leads agencies to treat assets—once won in the struggle for a share of the government's capital budget—as a free good.

4. When accountability is based on inputs, agency missions and objectives and the services they are to supply tend to be more loosely defined. This may lead to ineffective control by the government over the quality or quantity of services supplied.

On the other hand, risks can also arise in devolved output-focused systems because of the difficulties of proper specification and pricing of outputs or of effective monitoring of performance.

In the New Zealand contractual budget management model, Ministers confer budget authority on agencies in return for undertakings to produce specified outputs. From a macro-budgeting viewpoint, the contractual model is designed to facilitate disaggregation of outputs to the minimum size consistent with separate purchase, and to facilitate contestable supply. From a micro-budgeting perspective, contracted results are also supposed to be clearly linked to the personal performance of the chief executive of the agency.

The critiques of this output specification and reporting model turn basically on the ability of the government to specify the outputs that it requires from its suppliers (who may or may not be government agencies); to fix efficient prices; and then to enforce supply of the outputs according to specification and price. These assumptions may hold true only for some types of public sector output.

First, control through specification and monitoring of outputs particularly suits activities which are simple linear processes where measurable outputs are closely related to the value or outcomes of the activity.[4] For activities where neither output nor outcome are directly observable (like social work or much police work), other strategies will be necessary for governments to obtain compliance with their objectives.

Second, there has to be a basis for pricing the output. Setting an "efficient" price for outputs is also important in the New Zealand theory of control to eliminate organizational slack and provide an incentive for productivity improvement. Calling the appropriation of budget authority a "price" sends the message to agencies that the supply of outputs is, in principle, contestable. The common practice in New Zealand for "pricing" outputs is however not to benchmark prices against the competition but to negotiate a cost plus figure with agencies with something shaved off for a "productivity dividend". Shorn of the new language of outputs, this reduces the basic budgeting task to the familiar one of arguing with agencies on input prices and their aggregate costs of operation, with its attendant information asymmetry.

Furthermore, because New Zealand departments have full cost budgets covering both capital and current expenses (rather than having personnel costs inputs centrally controlled or assets allocated to agencies by separate budgeting

Table 2. Some comparative features of centralized and devolved systems

	Centralized	*Devolved*
Expenditure allocation rules (focus)	Inputs	Outputs
Primary risk	Non-compliance with expenditure rules	Failure to deliver required results (including price)
Enforcement	Ex ante by prior approval of expenditure	Ex post by monitoring, sanctions and rewards
Entity reporting	Relatively low priority	Critical
Audit priorities	Compliance with expenditure rules	Reliability of reporting of results

processes), the New Zealand model introduces problems of estimating asset prices and relative prices of labor and other inputs. Both of these problems may be exacerbated in situations where there are relatively high rates of inflation which may produce high rates of change in relative prices.[5]

The New Zealand system relies on *ex post* reporting both for enforcing compliance with legally imposed expenditure limits and for monitoring and follow-up of achievement of specified results (both financial and non-financial). By making the output class the basis of legal appropriation, the New Zealand budgetary system has brought appropriation accounting and management reporting together at the topmost level of the budget. It follows that effective monitoring through timely and reliable reporting is critical to effective control. Good reporting in turn implies good internal control systems and effective attest audit.

It is a major risk in any *ex post* control system based on monitoring of results that reporting is neither timely nor reliable. The World Development Report notes that:

> Because public sector outputs are often difficult to measure and monitor, financial control and accountability are needed to keep managers honest, prevent the poor use—or abuse—of public resources, and improve service delivery. In many countries public financial accounts and audits are outdated and inadequate and therefore do not provide credible restraint. (World Bank, 1997: 91)

The differences between the centralized model and the devolved model are summarized in Table 2.

The two models are however fundamentally similar in one crucial respect: both are designed to enforce budgetary compliance directly through central control of expenditure and both, by implication, treat "management"—the effective and efficient achievement of results through direction of the use of resources—as exogenous. As noted earlier, the problem of effective performance is unlikely to be solved simply by moving the focus of central control from inputs to outputs because of the problem of adequate specification and monitoring of many outputs.

MANAGEMENT RISKS—CONTEXT VS CONTENT?

On the other hand, many developing countries with highly centralized, formal systems also have major difficulties in efficient budget management. Is this weakness entirely due to "informality", as Schick suggests, or is there an interplay between the formal rules and the context which contributes to the informality?

The gridlock, deception and caprice which characterize many ineffectual centralized systems may materially contribute to their replacement by informal rules. In Caiden's 1980 article debunking some common myths about budgeting, she observed:

> Because of the difficulty of controlling events in conditions of poverty and uncertainty, budgeting is often conceived as a matter of regulation. The pervasiveness of corruption in public life, the difficulties of gaining information over large distances, and the frequent existence of "muddle" seem to put a premium on detailed supervision, rigid narrow categories and procedures, and the prevention of discretion in budgetary matters. All too often such policies are counter-productive, resulting in rigidity, lack of initiative, inflexibility, inability to adjust to changing conditions, and frustration. Attempting to secure better estimating, compliance with budget estimates, and closer accounting for monies spent, authorities redouble their efforts to narrow categories, pre-audit expenditures, and demand check and counter-check of all transactions. . . .
>
> The results are not good: red tape and bureaucracy are not conducive to development which requires commitment, initiative, and enthusiasm. Not only does the proliferation of regulation inhibit these, but it also often fails to achieve even its avowed objectives of curbing corruption and dishonesty. In order to gain organizational goals, officials are often forced into evasion of the rules, and rules evaded for legitimate purposes are easily circumvented for personal gain (Caiden, 1980: 44).

Similarly, Premchand, commenting on his own survey of budgetary practices, observed that it was "generally noted that the intervention of the central agencies is intrusive and therefore counterproductive, that the structures tend to promote dysfunctional behavior, and that the rules devised are inefficient." Most controls of central and spending agencies "seem to operate in a reactive, rather than a proactive, mode, occupied by crisis or other short-term agendas, and with little focus on policy and strategy over the medium and long term" and "..the structure is dominated by process controls that tend to be deterrent, and they are not matched by positive controls that also have a degree of 'compellence' to use Schelling's phrase". Premchand concluded that ". . .the controls exercised have obvious limitations. For state purposes, specified rules are not applied to some expenditures. Some policies that are determined politically are exempt from controls, as are expenditures for security. Obvious attempts at circumvention and prominent leakages such as accumulation of payment arrears and ghost employees tend to undermine confidence in the system." (Premchand, 1993: 36–37).

MANAGING MANAGEMENT CHANGE

Despite these damning critiques there remains a real fear that devolving management authority in developing countries will lead to a loss of control without benefit in terms of improved results. Assuming that governments want both results and compliance, how can this be achieved? Transiting safely from central to devolved management requires attention in the proper sequence to government-market institutional relationships; basic public sector institutions, particularly civil service and budgetary management; and new contractual relationships between government and its agencies. All of this has to be done while at the same time managing the changing power relationships implicit in significant reform.

GOVERNMENT-MARKET RELATIONSHIPS

Mongolia's case illustrates how much public financial management is dependent on market institutions. For Mongolia, a key issue has been establishing a proper commercial banking function for the government which in turn has required establishing a proper and stable commercial bank sector and disentangling the central bank from the industrial banking role it played under communism. A further issue involves creating proper arm's-length relationships between government agencies and suppliers—particularly so that the concept of meeting payment obligations means something. Most fundamentally, the government has to be able to plan budgets on the basis of meaningful input prices in an economy where less than a decade ago all significant prices were set administratively.

PUBLIC SECTOR INSTITUTIONS

As well as the institutions of the market, the basic institutions of the public sector need to be redeveloped. Specifically in respect of financial management this includes developing a budgeting function with meaningful annual budgets and timely and reliable reporting; including:

1. Budgeting no longer subordinated to the development plan, but subject to a single Cabinet decision process based on medium-term expenditure limits, with clearly-defined Ministerial and agency accountability for budget execution; supported by a capability in the Ministry of Finance both to set agency budgets and to monitor, interpret and take action on agency reports;
2. A single, consolidated fund for all government revenues and with all expenditures controlled by a single appropriations process;[6] central Treasury management of the government's overall cash position; and Ministry of Finance control of all accounting systems, accounting standards and reporting requirements;

3. Effective audit and internal control: a supreme audit authority with an attest audit function; effective internal control in government agencies; and an overall internal control function located in the Ministry of Finance.

SHIFTING TO OUTPUT-BASED CONTROL

The move to substitute output-based control for line item control needs to be carefully staged and targeted. The requirements for effective output budgeting are the ability to specify and price outputs properly so that reporting against output budgets is meaningful for control purposes. For specification this means choosing initially outputs where most significant characteristics can be properly described and measured in accountability documents. The logical candidates are commercial or quasi-commercial outputs remaining in the public sector (central supply functions for example such as transport or printing services) or other process-based functions such as assessment and collection of revenue, customs and immigration inspection and assessment and payment of entitlements. For pricing of outputs—whether on a cost-plus basis or by benchmarking against private sector services—accrual accounting is required at an agency level.[7]

These requirements add new layers of skill requirements on the Ministry of Finance. It has to be able to negotiate output-based agreements with those agencies which have output-based budgeting and it has to be able to interpret and respond to reports based on outputs and expenses rather than payments for line item inputs.

POWER RELATIONSHIPS

Reforms to public management systems usually imply some redistribution of authority within government. The principal risks of effective devolution are opposition from political authorities fearing loss of detailed control over policy implementation; and from central agencies reluctant to cede control, particularly over line-item budgets and staffing. The problems are significantly increased if reform threatens the personal financial interests of powerful political figures. Getting formal approval for change may be the least difficult part of the reform process. Any major implementation threatening established interests brings with it the risk of bureaucratic resistance and revanchist re-appropriation of power. What is to stop the Ministry of Finance from acting arbitrarily to abrogate agreements, or interfering with detailed financial management, probably in the name of overall budgetary priorities? How can governments be dissuaded from interference over staff appointments, wages and employment conditions? Can pilot agencies with special budgetary freedoms and the power to pay market wages be protected from the jealousies and rivalries of the rest of the civil service? It is no wonder that reformers seek to move swiftly, as in New Zealand. The

Schick/Bank gradualist dictum will be taken as a signal by centralists that managerial authority can be revoked at any time. How can a government be persuaded to persevere with an experiment in the face of inevitable reversals and mistakes?

Ignoring these risks seems a particularly risky strategy. Schiavo-Campo notes the futility of institutional reforms "in the absence of effective monitoring and enforcement mechanisms"; but the "temptation of foreign donors to declare a problem solved and move on to the next agenda item" together with "the ingrained habit of control-minded central elites in the transition countries themselves to effect behavioral change by *ukase*" can lead to a tendency to "sidestep these requirements" (Schiavo Campo, 1994: 9).

Equally, attempting to outflank the opposition has its risks as well. These are particularly evident in "enclaving": creating agencies or projects where new reforms are implemented hopefully for their transmission and demonstration effects. (Schiavo-Campo talks of "efficient nuclei [which] should be selected largely on the basis of their potential for spreading new institutions and organizational practices throughout the system" (Schiavo-Campo, 1994: 14)). The risks are that existing institutions can defeat or sabotage the reforms by their power of position.

In Schiavo-Campo's view, therefore, long-term sustainability of reform requires tackling issues of power head on with "a clear and public mandate, unquestioned political support and the material and human resources necessary to carry out its function." (Schiavo-Campo, 1994: 9). To this can be added the need to embed the strategy in founding legislation and to ensure that key central agencies are fully committed to the changes. Major administrative reform strategies also require the commitment and protection of senior political figures, and can rapidly lose momentum if their patrons depart or their attention is shifted elsewhere.

The momentum of public management reform in New Zealand can be largely attributed to high-level commitment from Ministers of Finance under both Labour and National governments and at least tacit support from other Ministers. Mongolia similarly began its process of New Zealand-style public management reform with a clear strategic vision and a political commitment to change. There was no suggestion that the proposed reforms had been foisted on the Government by influential donors—indeed the Mongolian proposals have had to contend with some scepticism from individual agency officials. The previous Prime Minister and Minister of Finance had both made a considerable political investment in public administration reform and attempted to ensure that changes enjoyed bipartisan support. As noted earlier, the departure from Cabinet of these two principal political champions for reform is a major risk to the reforms.

A significant risk arose because of the lack of full participation of the Ministry of Finance in the reform process. The development of the draft legislation and the

implementation was placed in the hands of a project team drawn from staff of the Prime Minister's Department and the Ministry of Finance but was largely driven by the New Zealand consultants and the previous Prime Minister's senior economic advisor with limited high-level representation from the Ministry. Not having a Ministry of Finance as at least an active and enthusiastic participant is a real risk for a project with financial management reform at its core. Again, this can be contrasted with the New Zealand reform initiatives which were substantially conceived and implemented from the New Zealand Treasury.

CONCLUSIONS

This article has been written on the premise that existing systems of public management have failed the developing world and that the explanation at least partly has to be sought in the formal nature of those systems. Schick's critique of managerial devolution could apply with equal force to centralism. If we live in a world where formal rules mean very little, then why should centralized systems be any less at risk to "informality" than devolved ones? Is the risk of self-serving behavior simply located in the central institutions of government rather than being scattered around the civil service in devolved agencies? We have plenty of evidence from experience that centralized control does nothing to reduce informality and some—from the reports of Caiden, Premchand and others—that it may well increase it. Reconceiving the nature and role of public management therefore seems to be an essential task; but this is unlikely to be achieved without first getting the basic institutions of the market and central government right.

NOTES

1. In the three years to 1998 this includes Auditor-General of Canada 1995; Bale and Dale 1998; Boston et al. 1996; Boston and Pallot 1997; Campos and Pradhan 1997; Halligan 1997; Jacobs 1997; Miah and Mia 1996; Pallot and Ball 1996; Schick 1996; Schick, 1998; Scott 1996; World Bank 1997.
2. Personal communication from ADB official July 1999.
3. See Premchand, 1993: 48 for a brief description of alternative approaches.
4. Apart from the large literature on performance indicators and performance management, various writers (e.g., Perrow, 1986; Wilson, 1989) have addressed the strengths and limitations of control through specified outputs.
5. The issues and problems with a pricing model for outputs are discussed in Schick, 1996: 66–69 and Horne and Walker, 1998. See also Reid, 1998 for a commentary on the problems of pricing in the Mongolian context.
6. In Mongolia agencies have sometimes been able to retain tax and license revenues for their own purposes for indefinite periods of time.
7. According to Reid, there are some positive legacies of the former Russian-based public administration system.

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