

**PUBLIC ADMINISTRATION AND CIVIL SERVICE
REFORM IN MONGOLIA**

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Abstract

What has been the process of implementation of public administration and civil service reforms in Mongolia? What have been the effects and outcome of the reforms in terms of improved performance and quality of public services? These questions are investigated by exploring the experiences of public administration and civil service reforms in Mongolia since the onset of transition in 1990. The research draws on the findings of the fieldwork conducted in Mongolia during January 2002-January 2003 and seeks to provide perspectives on 'new public management' as a policy option for improved public sector performance and effective public service delivery in the context of transitional Mongolia. The effects of public management reforms are examined on the case study of the education sector. The thesis provides the basis for a critique of the applicability of external models of public management reform to systems of governance in transitional and developing economies. The main points of the critique are:

NPM reforms had only a limited positive impact on the operations of the government, largely affecting its formalised institutional framework. Government policy-making and implementation capacity has been eroded and expectations of creating a well performing government service have not been realized. Diminished accountability and access to information, politicization of the civil service and bureaucratization feature prominently in contemporary government politics. Demoralization, skills shortage, corruption and patronage have emerged rapidly against a background of economic crisis and widespread poverty. The effect of reforms on education was deterioration of standards along all three dimensions – quality, enrolment and equality. The reforms were part of the IMF/World Bank parcel of structural adjustment and stabilization reforms. The reform objectives and design were overoptimistic and ambitious with little regard for the country's institutions, administrative and political culture and capacity to implement complex reforms. Mongolian decision makers too, ravaged by their own political ambitions and struggles for power, failed to develop their own model, which would have been more likely to work, and too easily accepted external models.

This led us to question the appropriateness of the overall model to Mongolia. There is ample evidence to suggest that the model was less than suitable for the country on several counts. It is clear that necessary economic, social and political preconditions for new public management reforms were nonexistent. First, economic crisis, which led to the application of a stringent public finance regime and drastic cuts in government expenditures, was a major constraint to introducing NPM reforms. The implementation was limited by lack of resources, low pay and thus demoralization and corruption in government. Not least important in the Mongolian context were the crisis and unstable social context, with rampant unemployment, poverty, rising inequality, alcoholism and crime. Second, democratization of the Mongolian political system had implications for its PA reform. Public administration became ravaged by power struggles between narrow interest groups, undermining efforts towards creating a professional and neutral civil service. Third, in combination, transition reforms drastically reduced the size and the capacity of the Mongolian state to implement NPM reforms, let alone manage the economy and society. The case of the education sector illustrated that deregulation of the sector was carried out with little if any government regulation to prevent a market failure and imperfections, thus resulting in an improper mix of qualifications, a sharp rise in unemployed graduates, and an overall deterioration of the quality of education.

Declaration

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Abbreviations

ADB	Asian Development Bank
CEE	Central and Eastern Europe
CIS	Commonwealth of Independent States
CMEA	Council of Mutual Economic Assistance
CSR	Civil Service Reform
EGPRSP	Economic Growth and Poverty Reduction Strategy Paper
ESAF	Enhanced Structural Adjustment Facility
ESDP	Education Sector Development Programme
EU	European Union
FDI	Foreign Direct Investment
GASC	Government Administrative Service Council
GDP	Gross Domestic Product
GNP	Gross National Product
GOM	Government of Mongolia
HDR	Human Development Report
IAMD	Institute of Administration and Management Development
IFIs	International Financial Institutions
IMF	International Monetary Fund
MBDA	Mongolian Business Development Agency
MDP	Management Development Programme
MNE	Ministry of Nature and Environment
MPRP	Mongolian People's Revolutionary Party
MOFE	Ministry of Finance and Economics

MONTSAME	Mongolian News Agency
MOSTEC	Ministry of Science, Technology, Education and Culture
NPM	New Public Management
NSO	National Statistical Office
ODA	Overseas Development Assistance
OECD	Organization of Economic Cooperation and Development
PAR	Public Administration Reform
PARP	Public Administration Reform Project
PSMFA	Public Sector Management and Finance Act
SIDA	Swedish International Development Co-operation Agency
SIH	State Ih Hural
SOE	State Owned Enterprise
TACIS	Technical Assistance to Commonwealth of Independent States
UNDP	United Nations Development Programme
UNESCO	United Nations Education, Culture and Science Organization
USAID	United States Agency for International Development
WB	World Bank

CHAPTER ONE

INTRODUCTION

The last decade has been a decade of colossal changes and transformations in the political, economic and social structures of the Mongolian society. These processes commonly labelled under transition reforms are part of a global process, which affects many contemporary nations and, by large, resulted from one of the most dramatic events of the late 20th century – the fall of communism. What distinguishes transition reforms in Mongolia and other post-communist countries from processes of change in the rest of the world is the breadth and depth of a systemic change with total restructuring of old economic and political structures and changing value systems. More specifically, transition reforms are aimed at restructuring previously centrally planned socialist economies and building thriving market economies based on private sector development. For this, according to the World Bank ‘the reform must penetrate to the fundamental rules of the game, to the institutions that shape behaviour and guide organizations’ (World Bank 1996a:1). The present research explicitly engages in the analysis of this process in the context of a small country – Mongolia. In doing so, it adopts a multidisciplinary approach, which cuts across various social science disciplines, as only a holistic and multidimensional view of complex social events and processes facilitates the depth and rigor of analysis.

1.1 Mongolian Context

Mongolian transition began abrupt but peacefully, when Gorbachev’s reforms of ‘perestroika’ in the former Soviet Union and democratic upheavals in Eastern Europe resulted in the dissolution of once a powerful economic and military bloc. Inspired by these events the

Mongolian people have chosen to initiate a decisive break with its past in its effort to build a genuine 'democratic, humane and civil society' (Article 1, Constitution of Mongolia, 1992). A series of peaceful demonstrations and hunger strikes led to a resignation of the old communist Politburo and Council of Ministers. The first multi-party elections were held and a democratic Constitution was adopted legalizing the plurality and freedom of political and economic choice.

These political events were followed by an abrupt, almost overnight termination of Soviet aid, which equalled 30 percent of Mongolia's annual GDP. The situation was exacerbated by the break up of established economic and trade arrangements with its conventional markets after the dissolution of the Council of Mutual Economic Assistance (CMEA), which caused a severe shock in Mongolia's terms of trade. The economy, closely built up and integrated within the socialist system, faced a deepening economic and fiscal crisis, and its population was confronted with an extreme deterioration in living standards. Thus, the average inflation rate, which was negative and stood at -1.3 percent during 1980-1990, reached 325.5 percent in 1992 and 183 percent in 1993, before being halted at 53.1 percent in 1995. Growth in GDP during 1990-1993 was negative by almost 10 points in 1991 (Chapter 4). Industrial growth was likewise negative until 1995 and still remains far below its 1989 level. Exports, in 1995, had not yet reached the 1990 level, whereas imports were still about 40 percent of the 1990 figure (UNDP 1997a).

Persistent inflation and growing unemployment led to an application of hard, orthodox stabilization and adjustment measures, which began in 1991 under the International Monetary Fund (IMF) Standby Programme, followed in 1993 by an Enhanced Structural Adjustment Facility (ESAF). The latter was replaced by the Poverty Reduction and Growth Facility (PRGF) in November 1999. These included liberalization of prices, tariffs and foreign trade, macroeconomic stabilization and restructuring, external trade and exchange rate reforms, public finance and administrative reforms, banking and financial sector reforms, public enterprise management reforms, privatization as well as legal reforms conducive to a market economy.

The aid donors, in general, regard the Mongolian reform experience as successful (ADB 2000a; World Bank 2002a; IMF 2000, 2001a,b). The reform strategy was that of a 'shock

therapy' approach similar to the one followed in Eastern Europe, where political and constitutional reforms were carried out in parallel with economic and social reforms in sharp contrast to the approaches adopted by its two neighbours – Russia and China. Political achievements such as adoption of a democratic Constitution, and establishment of a multi-party parliamentary system and an independent media were major successes of transition. In the economy, some macroeconomic stability has been observed and structural changes and aggressive privatization programmes led to a rapid growth of the private sector, with private sector output comprising more than 70 percent of the total GDP (NSO 2000). A recent IMF study positioned Mongolia at the same level with Romania and Bulgaria in terms of reform progress and achievements. The latter countries have now almost satisfied the initial conditions for their accession to the EU (IMF 2001a). Overall, one could argue that political transformation went fairly successfully compared to economic and social reforms.

Against this seemingly favourable background, the country is experiencing typical small open economy challenges. Despite austerity measures, carried out throughout transition, figures for the year 2000 were somewhat disappointing. Economic growth rates contracted and reached negative real growth of 1.1 percent, budget deficit increased to 12 percent of GDP in 1999, current account deficit equalled 17.2 percent of GDP, annual rate of inflation is 11 percent, trade deficit has been increasing and stood at 15 percent (GOM 2001a). Poverty and unemployment have become acute and persistent problems. The results of a survey in 1998 demonstrate that 35.6 percent of the population survives on incomes below the poverty line (NSO 1998a). In addition, the quality of and access to core public services, including social sector services, have been deteriorating. Corruption and poor performance in the public sector have become real constraints in overcoming challenges of transition (GOM 1996a; 2001b, c).

1.2 Rationale

In terms of social organization or system change, Mongolia has been experiencing a paradigmatic change from socialist planning to a capitalist market economy. Much of the components of the structural adjustment program in Mongolia such as privatization, deregulation, and management reforms which are brought together under the umbrella 'transition reforms' or 'state reform', have been applied under 'public sector reforms' in developed and developing countries, especially since 1980s. We should emphasize that in the

case of Mongolia and other post-communist countries, 'public sector reform' involves more than reforming the public sector.

During the initial two years of transition the focus was mainly on macro level economic and political (constitutional) reforms, later the focus shifted toward micro level governance and institutional reforms given structural and institutional constraints inherited from the past and lack of reform management capacity. This required changes in the way state institutions were structured, and functioned, including the way human and all other resources were managed and administered. For this, the role of the state had to be thoroughly redefined in view of the new functions and responsibilities that the private sector, the local administrations and the civil society at large had undertaken as the pillars of a market economy and a democratic regime were being laid down. There was also a need not only for a completely new institutional and legal system but also a need for an internalisation of new values, attitudes and cultural patterns. For instance, essential pre-requisites of a market economy such as a business mentality and an entrepreneurial class were both absent in Mongolia because of near complete lack of market relationships due its pastoral-feudal and, later, socialist history.

More importantly, the state itself was an institutional constraint, and did not function according to the liberal democratic notion of a state, although structures had been laid out during the early years of transition. They needed to function properly, i.e. the remnants of old administrative culture and practices ought to be replaced by a new ethos of market-based management culture and skills. Basically, modern management ideas are not completely new to Mongolia. There was indeed a high degree of management (or administration) in a pure Taylorian sense as a planned economy required rational allocation, control and management of productive resources at both macro- and micro- economic levels. What was thought to be needed was a new type of management and managers capable of managing the state of affairs in the context of a market economy - a 'market based management'.

Initial attempts at introducing new management ideas and practices in the Mongolian political and administrative culture were made with UNDP technical and financial assistance in 1993 under the Management Development Programme (MDP). The MDP was the first comprehensive governance programme, which provided an institutional and policy framework for all donor projects and interventions in the areas of public administration and public

management capacity development (see Chapter 5). Within its framework the necessary policy, institutional and legal framework was partly established and management training capacity was build up. Thus, the Prime Minister was a chief manager of the relationship with the parliament. The Cabinet Secretariat was reorganized and strengthened in terms of capacity, policy making and executive power. New agencies such as Government Administrative Service Council (GASC), Mongolian Business Development Agency (MBDA), and State Auditing Board were created to assist the Prime Minister and the Cabinet, ministerial discretion was reduced apart from the Ministry of Finance. The Law on the Government of Mongolia, Law on Territorial and Administrative Units and Their Governance, and Law on Government Service were adopted by the parliament in 1993-1996. Service tours for project staff and parliamentarians were organized to Australia, New Zealand, Malaysia, Singapore, Sweden, Germany and the United States. The implementation of the Public Administration and Civil Service reform began in July 1996, which involved reform of public administration leading to a restructuring of government ministries and agencies (UNDP 1996).

The reform impetus has been furthered since 1996, when the Government developed its policy document Mongolian State Policy on Reforming Government Processes and the General System of Structure, and produced a draft Public Sector Management and Finance Act (PSMFA) (Chapter 6). The former has defined the Strategic Business Mission of the GOM as follows: *'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'* (GOM 1996a, paragraph 2.4). The documents implied an application of output based budgeting and accounting in budgetary organizations in line with recent New Zealand experience (GOM 1996a, 1996b). The initial phase of a comprehensive ten-year Governance Reform Programme, supported by the Asian Development Bank (ADB) loan was launched in April 1998. Its components included overhaul of public sector financial management and testing administrative reforms in several agencies and, on this basis, to strengthen fiscal discipline and introduce strategic budgetary planning by putting in place a system of top-down budgeting and a micro-based budgeting framework. Major strategies have been performance-based budgeting; performance-based management at the central and local levels; transparent and efficient fiscal and administrative relations between local and central governments; and continued corporatization and privatization of state owned enterprises (SOEs). Political uncertainty and fears of the risks of too rapid a destruction of the state machinery in a time of

deep economic and political crisis had prevented its adoption by the parliament, and the law had been pending in the State Ikh Hural (SIH) until it was finally endorsed in June 2002.

The present government, which has adopted the PSFMA, has also committed itself to implementing a 'good governance framework' with improved systems of public sector management (GOM 2000a, 2001c). A high level Political Committee chaired by the Prime Minister was established, which will oversee a detailed review of all Government functions and expenditures. A Three Year Fiscal Framework Statement was developed and the Government Implementation Guideline towards improvement of the public sector finance and management system was adopted. The Public Sector Expenditure review was carried out with technical and financial assistance from the World Bank. The nationwide implementation of the PSFMA began in January 2003 covering the entire public sector. According to the government these reforms entail major revisions to existing public administration practices as well as profound changes in management, responsibility and accountability philosophies and approaches to public sector management (GOM 2001a, 2001d).

As mentioned earlier, public sector reforms have been a major preoccupation in most developed economies over the last two decades. Although the pursuit of radical reforms began initially in the industrialized world (UK, the USA, Australia and New Zealand), they have fostered a wave of reforms in other countries, including transitional economies. The notion that there are specific models of public sector management that have universal applicability has emerged (Pollitt 1993). These new models were based on market values and on the assumption that public goods are like any other goods and, therefore, can be best produced and delivered by the market. The main strategies underpinning these reforms in western welfare states have been decentralization, privatization and deregulation, which have been implemented through institutional reforms and cut-backs (Lane 1997).

The reforms triggered hot discussions on the merits and demerits of these models both on conceptual and empirical grounds. While some discussed and criticized the model focusing on its conceptual implications, such as the merits and demerits of public 'managerialism' and 'contract culture', and in relation to the application of market mechanisms in governance and social sector domains, others, especially in the development field, based their discussions on the 'policy transfer' issue. They stressed the need to consider the influence of cultural

dimensions, including local administrative and political cultures, upon the reform implementation process. At the same time, such a broad replication of reforms across developed, developing and transitional economies raised questions about the 'universality', 'applicability' and 'transferability' of these models to differing country circumstances (Common 1998; Dolowitz and Marsh 1998; Verheijen 1998; Minogue 2001).

There has been some research on implementation of reforms in a number of countries, mostly developed countries such as the UK, Canada and New Zealand (Minogue 1998; Dolowitz and Marsh 1998; Gray 1998; Minogue and McCourt 2001; Dunleavy and Hood 1994; Nunberg 1995). They revealed that the results have been mixed. Some research suggests that the new principles and mechanisms produced positive outcomes such as improved performance, reductions in costs, substantial efficiency gains and increased quality of services as well as transparency and accountability across the sector (CAPAM 1996; Commonwealth Secretariat 1996; World Bank 1995a, 1996a). Others point to mixed or even disappointing effects of reforms on public sector performance and service provision, such as negligible gain in efficiency, increased transaction costs, corruption and poor performance of civil servants, deteriorated and unaffordable social services (Self 1994; Pollitt 1994; Cook and Kirkpatrick 1995; Wilson 1996; Cook 1998; Gray and Jenkins 1998; Halligan 1997; Gray 1998; Polidano 1999). Except for these, there is, in general, a lack of in-depth research of the reforms, their implementation and impact, particularly in developing and transitional societies, partly because here the reforms are only at their initial stage, and because many of these countries have not implemented the reforms in a comprehensive manner.

As we can see, Mongolia is not unique in terms of the challenges it faces and the processes which are taking place in its society as a whole. Therefore it is important to understand the process of Mongolia's transition and policies pursued from a broader perspective based on the analysis of concepts and theories that underpin the reforms, the empirical experience accumulated as well as the analysis of political, economic and social environments in which the process is taking place.

1.3 Aims

For this purpose, the research has engaged in an empirical exercise to analyse the process of implementation of public sector reform in Mongolia focusing on administrative and civil service reforms. The analysis of the implementation and of the effects of the reforms on public sector performance and service delivery is based on the case study of the education sector.

The research sought to provide perspectives on the 'new public management model' as a policy option for improved public sector management and effective public service delivery in the context of transitional Mongolia with its weak institutional, regulatory and legal frameworks. Also, it sought to contribute to broader debates about the introduction of market mechanisms into social and political (administrative) domains given the very contested nature of current debates. Especially, it became important for contemporary Mongolia, as a transforming society with limited resources, which can no longer afford to deliver services on the universal basis and, thus, applying western developed country models and values to its own political and administrative culture.

1.4 Objectives

From what has been discussed it follows that the research aimed at achieving a number of broader objectives:

- To study and understand the theory and practice of public sector reform
- To study and understand the nature of public sector reforms in Mongolia in close relation with the country's social, economic and political contexts as well as with the broader international/global context
- To present a country and sector case study based on the analysis of the Mongolian public sector reform process
- To contribute to broader discussions on public sector reform movement by providing perspectives on the reforms and the 'new public management model' with focus on implementation and impact - the political, economic and social dimensions of NPM.

Alongside broader objectives, the research pursued the following immediate objectives, which are the subject of the empirical analysis:

- To analyze and understand the position of Mongolia in relation to international experiences in reforming the public sector
- To analyze and assess current processes of change and trends in the country's economic, social and political developments, internal and external drives for change;
- To analyze and assess the reform policy formulation and implementation processes and internal and external factors that influence the policy process;
- To attempt to analyze the initial outcomes and effect of reforms on public sector performance and public service (based on education).

1.5 Key Questions

More specifically, the study aimed to answer the key research question:

What has been the process of implementation of public administration and civil service reform in Mongolia? And what has been its effect to date?

For this, theoretical and conceptual underpinnings behind public sector reform movement and 'new public management' as a reform model are explored focusing on the key analytical tools employed in these frameworks. We also examine whether there existed a single coherent and comprehensive framework on which the model rested. These are followed by investigations of key ideas, rationale and objectives of public sector reforms and major strategies as envisaged by its proponents.

Study of the theory is not sufficient without study of the supporting or refuting empirical evidence as theory not grounded on reality and practice cannot claim authenticity. Therefore, some attention was given to recent experiences with public management reforms in terms of reform objectives, strategies and their outcome and impact. Of particular interest was the impact of reforms on public service performance and service delivery, lessons learned during

reform implementation and policy implications in general. The experiences of advanced industrialized countries (USA, UK, New Zealand, Australia) and some transition economies of Central and Eastern Europe are explored. The latter shared similar characteristics with Mongolia in terms of the initial socio-economic and political contexts, and hence the processes, content, scale and magnitude of change. The experiences of the former countries are important as they provided the cases of radical implementation of the NPM framework in the context of an advanced capitalist economy. They also had accumulated substantial experience as they were at the forefront of reforms since the 1980s and it has been well documented relative to the experiences of the CEE and other country cases. This enabled better understanding of the logic of public sector reforms as countries differ substantially in their initial contexts, policy orientation, objectives, scope and policy outcomes/impacts.

The analysis of the policy process is not complete without taking into consideration the macro- and micro- environments, in which the process is taking place. The policy environment itself is not static but constantly changes over time. Therefore, Mongolia's overall social, economic and political context is analysed with longitudinal presentation of the contexts. Such an enquiry into the contextual setting immediately prior to and during administrative and civil service reforms enabled better understanding of the driving forces and pressures for administrative reforms, the implementation process, and the extent and complexity of factors that impacted upon decision-making and implementation. It focused on the features of as well as the interplay/interrelationships between various dimensions under investigation, covering a diverse range such as the governance, regime type, economic system, core values and socio-demographic characteristics. The analysis of generic transition reforms carried out since 1990 and their social effects is presented with the review of public sector reform in Mongolia, its objectives, nature, content, strategy and agents involved. Emphasis is on the parameters that influenced the overall policy process and public sector reform agenda in particular. It should be noted the country's external environment was also considered as an important dimension of the reform process.

The central public administration and civil service reform is examined in close relationship with broader economic and political reforms. The analysis reveals the nature of public administration and civil service reform, its policy, legal and institutional framework, major strategies pursued and issues that were encountered in the course of implementation.

The effect of the reform is difficult to qualify, let alone to quantify, given its nature and magnitude. Social, economic and political processes and interrelationships in a society are too complex to be subjected to a simple evaluative research and reveal all too many complex causalities. Therefore, the attempt at assessing the reform implementation process and its effect is made based on the case study of the Mongolian education sector. The effect will be assessed against the desired objectives of policy changes introduced, i.e. improved performance, efficiency, effectiveness, accountability and transparency and, more importantly, the quality of and access to education.

1.6 Methodology

As there are different approaches to understanding and analyzing policies, there are various approaches to the study of policy. Generally, 'policy' studies may include analysis of the policy content together with institutions, ideologies and procedure of government activity, and with some concern for its outcomes. This research attempts to incorporate all of these concerns, based on the assumption that the study of policy must regard policy in its broader sense, i.e. there is positive relation between policy and action, instead of looking at policies as sets of strategies, which are implemented in an ideal situation. Therefore, content (the substance of policy) of public administration and civil service reform and process of reform implementation (the given set of methods, strategies and techniques by which policy is made) are examined together with outcome and impact on public services, namely, education provision.

In terms of a broader analytical framework, this leads us to the 'policy' perspective in analyzing public sector reform, which is based on the assumption that the policy process is chiefly a political activity in contrast to the rational functional approaches to policy-making. As Jenkins argued, the policy analysis needs to disaggregate and explore the political system (Jenkins 1998). Furthermore, public policies affect and impact upon economies and societies, therefore explaining the interrelations between the state, politics, economy and society is important for understanding the policy. In addition, the policy is not delivered in a vacuum, separate from institutions, structures, and agents which make decisions and carry out actions to implement policies in a specific policy area. The whole process is meaningless until it is

related to the general political system, which provides a context for decision-making and policy. The policy process itself is embodied in and interacts with a wider context with its complex economic, social and cultural dimensions. Wildavsky (1980), a strong advocate of this approach, indeed identifies 'interaction' as the crucial focus of policy studies. Without understanding other dimensions there will be no understanding of the policy and its effect. But the society is a dynamic system, which constantly changes over time, in which relationships of cause and effect underlie relationships of action and interaction. From this point of view, the incorporation of a historical perspective is necessary in understanding the processes of change and their dynamics. Therefore, a multidisciplinary framework was adopted, drawing upon analytical and methodological tools of various disciplines which study social processes from different perspectives: political economy, political science, public policy and management and social sciences.

The analytical framework formed the basis of the methodological approach. The analysis consists of two parts - theoretical and empirical studies – and, in combination with qualitative and quantitative methods, it applies a multiplicity of research frameworks and methods. The units of analysis include the nation-state, the sector, city, local area, institutions, groups of individuals and individuals as well as subjective and objective concepts/notions, phenomena and structures/systems (policy, institutions, actors, broader environment). The analysis of policy formulation and implementation focuses among other things on the extent to which the *economic, political, social and other parameters*, which exist within and beyond the Mongolian context, influence and set the boundaries for formulation and implementation of policy agendas.

The analysis is based on the empirical material collected during the ten-month 'field' research conducted in Mongolia during March 2002 – January 2003. The underlying assumption is that, although the analysis of documents is a useful tool for research, they need to be located within a wider context as what people decide to record is itself informed by decisions, which in turn relate to the social, political and economic environment. From this perspective, documents are viewed as mediums through which social power is expressed (Giddens 1984; Habermas 1987). Therefore, *critical review and exploratory analysis of primary and secondary data* is adopted as a main approach to a document review. The longitudinal analysis of social, economic and political contexts is used in exploring the

background conditions for public administration and civil service reform, with focus on qualitative characteristics.

A *case study* conducted during a field trip in combination with survey methods is a major methodological device. Considering that case studies are static, with a tendency to isolate decisions from broader contexts and processes (Jenkins 1998), the research presents a country case study in wider international context. This combination of a case study with a comparative perspective is hoped to partly offset the limitations of case studies. The research analyses and examines the implementation and initial effect of public administration and civil service reform in the context of Mongolia at the national level in general and, specifically, on the case of education sector, and based on this provides perspectives on broader issues.

The choice of the sector was determined by the following factors: First, before 1990, the education sector was a priority sector consistent with the rapid industrialization project among other social and human development objectives, and therefore, the former socialist policy highly emphasised education. Second, as such, the education sector claimed the largest share of government expenditures. In 1989, it accounted for nearly 20 percent of the state budget and 11.3 percent of GDP, and employed 10.7 percent of the total workforce or 34 percent of government employees (of non-material sector). Third, it is recognised that a highly educated and skilled population was one of the greatest achievements of pre-1990 Mongolia (USAID 1992; World Bank 1993; ADB 1994a). Fourthly, it reflects the aim of the research, which is to assess and evaluate the implementation of public sector reforms, the ultimate objective of which is to improve the quality of public services delivery. Education was one of the key values and a key public good in Mongolia, which directly promoted human and social development. The case study method is applied throughout the research: at macro- (country), meso- (sector) and micro- (institutions and agents: central/local government offices, schools, teachers) levels of analysis. In terms of temporal dimension, the method is chiefly a historical and longitudinal study covering pre-1990 (up to 1911 for some variables) and post-1990 periods (till 2003).

A series of key informant and focus group semi-structured interviews provided valuable qualitative data. The former method was used partly because of the nature of the policy-making and partly because of the sensitivity of the issues involved. The key informant

interview involves the process of building up trust and co-operation, which enables the researcher to explore experiences and feelings in greater depth and to ask verification questions (May 1993). The key informants represented equally all three actors in the policymaking, implementation and evaluation cycle but interviews in each case differed in terms of focus, depth and methods of communication. Focused interviews with top policy-makers, central and local level government officials, representatives of international organizations and donors, staff of project units and pilot agencies who informed the research on the implementation process and impact of central public administration and civil service reforms provides advantages, such as more freedom for the interviewee allowing flexibility and the discovery of meaning, rather than standardization and generalization. These individuals were directly involved in the formulation and implementation of public administration and civil service reform (see Appendix 7). Questions for the informants were designed in advance and varied in terms of their focus, scope and depth, depending on their participation and position in the policy cycle and role in the reform process. Given the small population size in Mongolia, turbulent nature of transition and, hence, high staff turnover and mobility in the government service, many key informants had a wide range of experience and expertise in a variety of fields. The fact that the same person could elaborate on a particular issue from different perspectives made the interview sessions highly efficient. For instance, an educationalist could approach the issue as a former Minister of Education or the ministry official as a former teacher.

A mix of qualitative and quantitative methods were used in order to give a voice to the various stakeholders to be consulted, and to allow for the collection of detailed and relatively in-depth information on the impact of reforms on the sector. These methods include semi-structured interviewing, focus groups, participant observation, brief questionnaires, and documentary analysis. At the MOSTEC level the semi-structured interviews were carried out with six MOSTEC officials. The purposive sampling method was used to ensure representation of various departments and gender balance. Also, the consideration was given to the duration of their service so that the respondents could comment on the effects of the Ministry restructuring on performance and policy-making. The questions aimed at exploring: 1) implementation of the provisions of the Government Service Law; 2) the impact of the MOSTEC restructuring on policy-making capacity and performance; 3) the attitudes of the officials toward the new principles of public management introduced by the PSFMA

(Appendix 10). Key informants interviewed at the local government level included staff of local government social policy departments, who are in charge of education, directors of Local Education Centres, education methodologists and community leaders. They were generally interviewed individually during training sessions for local government administrators and education specialists at the Academy of Management, Institute of Education Studies and Education Sector Development Programme (ESDP) seminars. The discussions focused on the effects of decentralization and deregulation of education provision, school restructuring policies and private sector support initiatives in the localities, and the constraints faced by local administrations in education provision. Stakeholders interviewed at the community level included parents, students, principals and teachers to reveal their perceptions and attitudes toward the reform and its impact on education provision. To ensure greater representation, the interviews and focus group meetings with principals and teachers were held during or after the training sessions organized centrally under the ESDP, by the City Education Board and State Pedagogical University. In addition, some purposive sampling was used in the case of interviews with principals and teachers from 'cluster-schools'.

At various stages of the research, for the purposes of obtaining factual and attitudinal data various types of *questionnaire surveys* were used. The advantages of this method are widely acknowledged: the data is cheaper to collect, it saves time for analysis and processing, permits a higher levels of accuracy and provide more elaborate information (Moser and Kalton 1983). The main problem associated with the questionnaire method is that of the 'meaning equivalence' between researcher's intention and respondent's interpretation when there is not opportunity for dialogue (Hughes 1980). Another complication with this method is that particular attention must be paid to the design of questions. This requires much preliminary thought, time, and certain skills such as sampling, question design and actual administering for the method to be useful for the analysis. Nevertheless, this method is a useful tool in social research, especially when used in parallel with other methods. The research capitalizes on its advantages, particularly for assessing the effect of reforms on public sector performance and services delivery as this requires the survey of much larger sample of respondents compared to the surveys in policy arena. The questionnaire surveys involved MOSTEC officials in order to examine the case with public administration and civil service reforms in the ministry as well as secondary school teachers. The choice of method is dictated by the larger size of a sample although the results of individual and group interviews

may produce different perspectives on the same issue. The advantage of this method was that it allowed people to answer more on their own terms than the standardized interview permits, but still provided a greater structure for comparability over the focused interview. The secondary and upper secondary teachers were more enthusiastic in responding to questionnaires and provided more thoughtful and in-depth answers to the questions relative to pre-school and primary teachers. The response rate was high, as the survey was conducted during the in-service training seminars for urban and rural teachers and local education administrators. The questionnaires were distributed at the beginning of sessions and classroom time was allocated specifically for work on the questionnaire. This method also allowed greater representation of the sample population as the respondents come from various *aimags*. It also saved much of the time and resources otherwise required for visiting, especially distanced and sparsely dispersed rural schools in Mongolia.

1.7 Data

There is a vast amount of general as well as academic literature on the politics, economics, society and culture of former socialist countries. But admittedly much of this attention has been paid to the study of a political system, the operation of it, the inputs into the decision-making process, and how that process worked (Bunce and Echols in White and Nelson 1986). More recently, however, the academic community has become interested in the policies of the system, as indicators of what their polity was providing for their people. This literature has flourished since the collapse of the socialist system and, especially since International Financial Institutions (IFIs) and other bilateral and multilateral government and non-government organizations started their operations in transitional economies. Still, it must be confessed that the majority of official literature deals with economic policy inputs and are predominantly technical and quantitative in nature besides lacking comparative and historical perspectives. Therefore, one of the methodological constraints faced in the course of the research was an extreme lack of secondary literature on broader policy outcomes of reforms in post-communist societies.

The central feature of this research is that the policy reform strategies, implementation and outcome/effect of policies are analyzed based on the review and critical analysis of mostly

primary data given the lack or near absence of secondary sources of data. Therefore, the author had carried out an extensive content analysis of official documents such as laws, resolutions and decrees by the State Ikh Hural and Government of Mongolia, government policy and strategy papers and project documents. Official statistics and media compendia have been important sources for consultation throughout research. This list is complemented by documents from international organizations and donors to Mongolia given the lack of alternative secondary sources of data. Most importantly, the primary data was mainly obtained from in-depth interviews and discussions with key informants as well as personal participation in and observation of the reform process. The interviews were carried out with the government officials representing policy makers and implementers at both central and local governments. Nevertheless, the prime focus of the research on the central level of government meant that the representation of the latter prevails throughout the analysis. Due to the highly politicized nature of the policy process in Mongolia during transitional period, the author attempted to ensure balanced representation of and reflection of opinion at both ends of the political spectrum.

The limitations of using official documents and national statistics in social research are widely acknowledged (May 1993). Nevertheless, review of such material was necessary, particularly for analysis of the policy content. The parallel use of other sources of information in combination with various methods of primary data collection (interviews, questionnaires), precision and cross-checking (triangulation for instance) partly offset this problem. Of particular importance are systematic surveys of press and media - daily news, analytical reports - which often provide pluralistic accounts of the events and outcomes, especially taking into account the flourishing of free press and media in Mongolia over the last decade.

It has been observed that much of the documented analytical material on economic policy and reform, and public administration and civil service reform had been generated mainly by official donors and IFIs, and that there had been an evident lack of domestically produced analytical and secondary sources despite the growing number of research NGOs and think tanks. Dr. Batsukh, Research Director of the Academy of Management has acknowledged that since 1990 there has been no substantial research on any part of the public

administration reform, let alone the reform process as a whole¹ except for a few undergraduate theses at the Academy. This can be attributed to a multiplicity of factors, which, in general, stem from severe resource constraints in funding policy and indeed any research, as well as the speed and magnitude of reforms itself. Another, not less important factor, is the lack of nationwide policy dialogue and consultation on critical aspects of the reform agenda and policy-making. Policy discussion and decision-making tended to take place within the narrow confines of a political elite, notably in the name of the Prime Minister, Financial Minister and President of the Mongol Bank from one side and representatives of IFIs from another². Only recently has the government begun launching seminars bringing together politicians and members of the academia, a clear sign of the seriousness of the country's economic condition, and recognition of the need for a more open public debate.

1.8 Outline of Thesis

Chapter 2 provides a theoretical and conceptual framework of the research upon studying and understanding the phenomenon/public sector reform movement in a global context. First, key theoretical and conceptual approaches/frameworks (normative and methodological) to defining/analyzing public policy are reviewed and attempts are made to locate the analysis within an established macro analytical framework. This is followed by the review of the main tenets of 'new public management' as a dominant public sector reform philosophy and the recent experiences with NPM in the context of developed and transitional countries. The review emphasizes country experiences in relation to the reform objectives, major strategies focusing on converging/common strategies in a selected sample of countries, policy outcomes and impact of NPM reforms. The former explored whether policies have succeeded in meeting their desired objectives, such as efficiency gains, effectiveness, accountability and transparency, as well as claims about improved performance and quality of public services. Review of the impact considered expected and unexpected social, economic and political impacts of reforms. The final section concentrates on the critique of NPM by its opponents based on conceptual and empirical grounds. Chapter 3 begins the contextual setting of central public administration and civil service reform by presenting a very brief

¹ Sh. Batsukh, Interview, March 5, 2002

² MPs complained about the lack of information and transparency in government and that they had to find out what was going on from daily newspapers.

snapshot of pre-1990 Mongolian economy, polity and society. This is followed in Chapter 4 by the analytical review of generic transition reforms, which aims at examining the background conditions for public administration and civil service reform and understanding how the context influenced the policy process. Chapters 5 and 6 analyzed and explored the design and implementation of central public administrative and civil service reforms focusing on its economic, political and social dimensions. For convenience, the two chapters examine the reform process by looking separately at two distinct phases of NPM reform. The case study of the education sector is provided in Chapter 7 to illustrate the central reform experience, verify the degree of its implementation and explore the impact of public administration reform on the quality of education provision in Mongolia. The concluding Chapter 8 discusses how appropriate the new public management reform has been for Mongolia in terms of improved performance and quality of services. It also provides perspectives on the 'new public management' based on the Mongolian experience and comments on the implication of reform on the policy and future research.

CHAPTER TWO

PUBLIC SECTOR REFORM: INTERNATIONAL PERSPECTIVES

2.1 Introduction

Public sector reform activities have been a major preoccupation in most economies since the 1980s. Although they originated in developed industrial economies, these reforms have spread to the developing world and more recently to transitional countries in the wake of their transition from socialist planned to a market economy. The concepts 'governance reforms', 'good government', 'public sector reform', 'civil service reform', and 'new public management' became increasingly pronounced among international organizations and national government circles to become a new generation of universally accepted notions. The terms 'policy transfer', 'globalization', 'internationalization' have emerged to describe this process, whereby the whole range of countries undertake similar policies of restructuring their public sectors albeit at various scale. The notion that the reform model called 'new public management' capable of transfer across nations has emerged (Hood 1991, 1995). Some called it a new paradigm (Osborne and Gaebler 1992; Hughes 1998).

The present chapter aims at studying and understanding the above phenomenon - public sector reform movement - in a global context, and to establish the conceptual and theoretical framework for the research. It is implied that the global perspective, i.e. consideration of the experiences of both developed and developing worlds with their differing contexts, would facilitate better understanding of the phenomenon in terms of the underlying causes and driving forces of reforms, their actual outcomes and developmental impacts. In general, the chapter seeks answers to the following questions:

- What are the theoretical and conceptual underpinnings behind public sector reform movement and 'new public management' as a reform model, which started in western

welfare states and then 'transferred' to developing country systems of governance? The analytical frameworks employed in the analysis of public sector and its reforms are reviewed and current debates around public sector reform agenda, dominant reform strategies and models applied in developed and developing country contexts are introduced. Also, main arguments for and against the reform measures, policy models and processes both on conceptual and empirical grounds are considered. Analytical tools, concepts, notions employed in those frameworks are explored and the evidence for a single coherent framework on which the model rests is examined.

- What was the essence of public sector reforms in the countries which had undertaken them? What were the main components and policy models in developed and developing countries?
- What are the objectives, motives and driving forces behind public sector reforms in particular cases?
- What is the international experience with implementation of public sector reforms? For this purpose, a brief review of recent experiences with public sector reform in terms of policy models, processes and reform outcomes, in terms of meeting the desired objectives, impact, strengths and weaknesses of particular reform policies, lessons learned are reviewed, and the issues which have arisen during implementation are examined.

The chapter engages in a critical review of both theory and practice of public sector reform in advanced industrialized countries (USA, UK, New Zealand, Australia) as well countries of Central and Eastern Europe (CEE). The main focus is on examining the nature of and the international experiences with public sector and public management reforms – an attempt to reform public sector from within its institutional mechanism in the face of bureaucratic interests. We should note that the chapter does not intend to present key philosophical frameworks which have had influence on the normative, ethical and methodological approaches to the theory and practice of public policy. It rather engages in the discussions of different frameworks that informed policy analysis in general, and 'new public management' perspective and its practice in particular, including political economy, new right or old liberals (public choice theory), public administration and public interest approaches.

The section below presents existing frameworks and discourses of analyzing public sector and public sector reform. It also includes deliberations on the choice of analytical tools for theoretical and empirical analyses. Then, the conceptual and theoretical underpinnings behind public sector reform and 'new public management' are examined followed by a brief review of recent experiences with public sector and NPM reforms in developed and transitional economies based on the empirical material accumulated to date.

2.2 Analysing Public Policy

There are competing analytical frameworks for analysing public policy in a liberal democratic state, including welfare economics, public choice, social structure, information processing, and political philosophy (Bobrow and Dryzek 1987). They derive their origins from various fields of study of social life: economics, sociology, psychology, organizational behaviour, normative and ethical philosophy. More recently other frameworks have emerged that reflect a pluralistic pattern of policy study such as political process, comparative politics and management (Parson 1995). These frameworks individually or in combination inform the policy process as well as its study. Analyzing each of these frameworks and their influence on the policy process and policy study is beyond the focus of this research. Nevertheless, this section engages in a discussion which is relevant for the conceptual and methodological development of the research. It claims to be comprehensive neither in its description nor critique of these frameworks, which would be beyond the aim of the thesis.

Indeed, such a fragmentation and existence of a wide range of analytical frameworks informing policy process and policy analysis makes it an uneasy task to maintain conceptual and analytical coherence in the policy analysis in general, and in the study of public sector reform in particular. The study of analytical frameworks available for the policy analysis reveals surprising lack of coherence and consensus across the board on basic underlying concepts applied in the analysis of the public sector and public policy-making. Thus, in the traditional approach to the public sector as public administration, the concept of public sector implies 'government activity and its consequences' (Ostrom and Ostrom 1971). Others interpret public sector in various ways depending on the focus applied to defining public sector: in terms of governmental consumption, or investment and transfers (focus on budget),

government consumption and investment (allocation interpretation), government production or government provision (production interpretation), government ownership or government employment (Lane 2000).

There are competing views on the issue of demarcation between 'public' and 'private' domains, which is useful for defining the sizes of public and private sectors. Traditional or public administration, social choice (theory of public goods), public finance and public choice theories suggest various solutions to the demarcation problem based on the concepts of 'goods' and 'interests'. But even at the level of these concepts there exist a number of contesting views. Thus, the notion of 'public interest' is central to the bureaucratic model or traditional public administration framework, which denotes that there is a special type of rationality, namely impartiality, and leads to well-known normative models of state and policy-making. But the concept has never been defined clearly by its proponents, especially in terms of its relationship to the interests of the state and other groups of interests. Besides this, the involvement of a degree of ambiguity as well as the elusiveness of the concept 'public interest', prevent us from using the public administration approach for conceptualizing public policy and public sector reform. It was subject to criticism from the public choice school of thought, which questioned the notion of 'public interest' as the foundation of relationships in the public sector (Niskanen 1973). In addition, its narrow focus on bureaucracy as a major institution of state organization as well as its main principles, including technical and economic rationality, rational top-down decision-making and implementation, hierarchy and centralization, adherence to rules and procedures, were criticized by emerging new approaches to public administration: public management and public policy frameworks. The deficiency with this approach is in its narrow focus on bureaucracy and formal institutions and disregard for other state, political, economic and social organizations, structures, environments, interactions, power relations and processes. Instead the public choice theory based its arguments on the notion of 'self interest' (Tullock 1965; Downs 1967; Buchanan 1986; Olson 1965, 1982).

Conceptual problems are not exhausted with deciding what is 'public' and what is 'private'. There are also competing theories about the institutions of the public sector in the name of bureaux as a form of public organization, which forms the basis for the organizational approach to bureaucracy, public choice school of thought and economic

institutionalism (Tullock 1965; Downs 1967; Niskanen 1973; March and Olsen 1976; Weber 1978; Dunleavy 1986, 1991). Public choice theory is, in principle, an objective study not wedded to any particular political belief and represents the application of economic theory to the study of politics. Because of its narrow analytical and methodological framework, based on neoclassical-economics and the principles of methodological individualism, rational behaviour and self-interest of principals, the public choice school of thought has been subject to strong criticism both on conceptual and on moral and empirical grounds (Dunleavy 1986, 1991; Self 1994, Lewin 1991; Stretton and Orchard 1994; Parson 1995) (see also Section 2.4). Besides its narrow economic and institutional perspective with zest for efficiency, competition and market mechanisms, the public choice school denies that power or class relations play much part in politics. It attributes political conflicts to different interests of individuals (Buchanan and Tullock 1962), thus denying the role of structural dimensions and social relations. Although this school of thought does explain aspects of political behaviour previously neglected, it explains behaviour only in a very limited context and does not provide insights into the relationship between politics and economics. On the whole the application of this approach, on which the 'new public management' with its narrow managerial perspective rests, as the sole analytical framework for studying public sector reform is rather limited.

Public administration and 'new public management' perspectives constitute, basically, two distinct forms of a managerial approach to public policy. As Self noted 'the study of administration could be viewed as a battleground between the contending perspectives of political science and the organization or management theorists...' (Self 1972). We will analyze them in more detail in the next section.

The public administration framework has been extended and criticized by the public policy perspective. The latter concentrates on the policy process as a constant stream of actions and activities, rather than formal institutions and, as such, emphasizes the political context in which public administration operates; the organizational and personal networks involved in the policy process; the success, failure and desirability of policies. Therefore, it links implementation mechanisms to results and the central concept of 'the state', essential to understanding the relationship between the administrative and political systems, and between politics, economy and society (Minogue 1998). While managerial perspectives make claims

for managerial rationality, the central argument of public policy perspective is based on political rationality, which may be defined as 'the capacity to make decisions in the future, to mobilise support for substance' (Wildavsky 1979). It is evident that the new framework, with its focus on interactions of society and economy, attempts to incorporate all the relevant dimensions which previously discussed perspectives failed to provide. Wildavsky (ibid.) identifies 'interaction' as the critical focus of policy studies, whether at the level of individuals or organizations or within society as a whole.

Despite its seemingly comprehensive treatment of public policy as a process, and an attempt at creating a unified explanatory paradigm for the analysis of the public sector from a political science standpoint, the public policy perspective is not free from certain limitations. Lane (2000) argues that this approach did not manage to explain how bureaux in the public sector operate. It did not clarify either the 'extent to which public sector problems are due to the operation of bureaucracies, or the extent to which public bureaucracies are different from private bureaucracies' (ibid:327). With its central concern for interaction, the public policy perspective tends to produce an obsession with inter-relationships as discrete behavioural patterns (pluralist-elitist and sub-system approaches), or simplified policy models (stagist approaches, systems theory) or 'grand theory' (neo-Marxist approaches). This frequently shows itself in the ahistorical approach in the policy studies (Minogue 1998) downgrading the significance of cause and effect. However, despite its limitations, it is argued that the 'policy' perspective provides a more 'plausible' account of events than the 'managerial' perspective and hence, the more 'plausible' account of the whole governmental system (ibid:13).

There are two popular approaches within the public policy perspective that attract our attention as they both provide useful models for analysis of the policy process. Models as analytical constructs help to explain, understand, interpret and organize data concerning the making of decisions by public bodies (Lane 2000). In general, models differ in terms of their approach to decision-making and implementation as a function of environment or external factors, or as a result of internal processes. The functional model first offered by Harold Lasswell belongs to the latter and assumes that policy emerges via a logical path moving through a political system from point of entry, through decision and implementation and then termination (Lasswell 1962). The advantage of such a stagist model is that it provides a useful framework for ordering policy activities, although it provides an ideal representation of reality

with no regard of political behaviour within the system. The stagist approach which sees the policy process as a function of external factors, is an adapted input-output model of the political system (or systems approach) derived from the work of David Easton. It differentiates policy process between policy demands, policy decisions, policy outputs (what the system does) and policy outcomes or impacts (Easton 1965). The models link variable patterns of political action with political demands, explaining outputs of the policy process while distinguishing outputs from outcomes.

Thus, the systems approach allows the analysis to disaggregate and to understand specific policy-related aspects, whereas the rational functional model enables an analysis which discerns various stages of the policy process. In addition, the systems approach is more rigorous in that it includes social, economic and political influences on inputs, system variables, policy outputs and outcomes. Critics of this approach are concerned, in general, with a downgrading of behavioural patterns in the systems analysis. Although the research presented here is not based on a systems analysis, its approach is somewhat similar to the approaches of these two models in that we shall use stages of policy decision-making, policy implementation and evaluation for analytical purposes. Also, in the analysis of the public sector reform we shall take into consideration the reform inputs (demands, supports, resources), the wider political system (decision processes, conversion), the policy outputs and outcomes as in the systems analysis albeit at varying degree of rigour. Important for the analysis are also the internal and external environmental factors, which influence the entire policy process.

The popularity of the systems model led to a move toward comparative research combined with the case study method. But the problem with comparative research is the issue of time span, i.e. the nature of the comparative research puts limits to the time period covered by the analysis, and thus the approach is criticised as 'blatantly ahistoric' (Jenkins 1998:30). Another limitation of the comparative approach is the restricted use of variables with which to carry out cross-country comparisons. The research here is not a comparative case study, but the comparative perspective is adopted throughout the research, particularly in relation to its attempt to understand the logic of public sector reform, Mongolia's experience with public sector reform within the context of reforms in developed and transitional countries.

At the broader level there are competing theories of the state, including pluralist, elitist, statist and other approaches (Dunleavy and O'Leary 1987), which provide more fundamental explanations of the nature and organization of the state in a liberal democratic society from structuralist, functionalist and critical theory perspectives. The classification of approaches to the state has also been provided based on the relationship between the state and society: 'state-centred' and 'society centred' approaches to state (Ham and Hill 1984). One might argue that such a wide range of frameworks is a must for policy analysis, for the policy process involves complex sets of relationships and interactions between various groups and depends on various organizational, institutional, environmental and structural factors. As Parson noted, 'policy analysis tends to range across them and to draw upon them, rather than remain unlocked into one specific framework' (Parson 1995). Wildavsky (1979:16-17) expresses a similar notion that policy analysis requires both an art and craft: 'analysis is imagination', involving 'experiments in thought' and creativity.

In addition to this multiplicity of frameworks, public sector reform itself penetrates all aspects of public policy, including its administrative structures and personnel, economic and social sector reforms, as a result of 'an apotheosis of neo-liberal thought, and the translation into practice of neo-liberal principles across the whole spectrum of reforms impinging on or directly involving the public sector' (Minogue et al. 1998:2). Such a scale of reform necessarily requires from the researcher an across-the-board knowledge and application of analytical and methodological tools of other academic disciplines. Moreover, to examine government or the public sector is to examine the state in the context of its broad relations with society and economy. External politics too cannot be simply left out. The following section will examine the nature and logic of public sector reform, drawing upon the critical review of the existing literature on reform experiences in developed and transitional countries and bearing in mind this diversity of frameworks.

2.3 Public Sector Reform

Analysis of public sector reform raises important questions regarding the overarching goal and rationale of reforms, the real demand and drive for public sector reforms, the logic and major reform strategies adopted by various governments. Equally important is to analyze

the key policy options adopted in public sector reform by different reformers and crucial trade-offs and risks involved in the reform processes.

The existence of a range of analytical frameworks and tools available for policy analysis is reflected in the approaches that shape and underpin current debates on public sector reform. With few exceptions these are narrowly focused on organizational and institutional aspects of reforms, and therefore provide a managerialist account of public sector reform. This is especially true for official literature, which examines recent developments with public sector reform experiences in different parts of the world, including public administration and civil service reforms, although the framework applied is much broader ('good governance' or 'sustainable development').

There is ample literature on public sector reform in developed countries, which provides interpretations of the rationale, logic and strategies of public sector reform and their outcome. There is also a general consensus that the last two decades witnessed a paradigmatic shift, with old welfarist approaches being replaced by an entrepreneurial model of government, or as Christopher Hood called it a 'new public management', driving out the old public administration. In terms of the drives to this new model the literature provides slightly different interpretations depending on the perspectives adopted.

Thus, those who see the problem from the managerialist perspective explain the drive to a new public management model by the emergence of a critique of an old public administration model and a general phenomenon of 'state failure' (Lane 2000). According to him, the logic of public sector reform is the process of moving from ex ante perspective of governance to ex post approach. The ex ante approach is an old public administration framework, which features planning, control, minute regulation, line-item budgets, means focus, steering, collective incentives, taxation and authority. The ex post approach is a management framework based on the principles of evaluation, discretion, framework legislation, block grants, management by objectives, measurement by outputs and outcome, individual incentives, user fees and exchange (ibid.:150). The strength of the above analysis is the identification of two major strategies of public sector reform: institutional reforms in the field of political governance, and efficiency reforms in the area of economic governance – or, as he rightly calls, them 'cut-back' reforms.

There is another common view that the logic of public sector reforms followed the same logic as economic reforms, which focused on 'liberating the operations of the market from the distortions produced by government interventions'. From this point of view public sector reforms seek to reduce the size and activities of the state, while introducing private sector disciplines into the public sector blurring the distinctions between 'public' and 'private' (Minogue et al. 1998).

International organizations are active promoters of public sector reforms in developing and transitional economies. Therefore, study of their policies is important for understanding the logic of public sector reform. The World Bank has been at the forefront of the move toward changing the role of the state and relying on market forces in the public sector. The World Development Report 1996 (World Bank 1996a), for instance, calls for newly emerged market economies in transition to make governments more *market-friendly and efficient*, entailing improved public sector management and developing a professional civil service. To overcome the deficiencies in the public sector, the Bank suggested to restructure the public sector through *privatization*, reorganize and *slim down* the central government, introduce *competition* and *contracting out* services to the private sector, and to improve *efficiency* through performance management and auditing. In the same report the World Bank defined the role of government in a market economy as the following:

'First, the role of government in producing and distributing goods and services must shrink dramatically. Public provision must become the exception rather than the rule. State intervention is justified only where markets fails – in such areas as defence, primary education, rural roads, and some social insurance – and then only to the extent that it improves upon the market. Second, Government must stop restricting and directly controlling private commercial activity and extricate itself from intimate involvement in the financial sector, focusing instead on promoting macroeconomic stability and providing a legal and institutional environment that supports private sector development and competition. Finally, instead of providing generous guarantees to secure adequate living standards for all, governments need to foster greater personal responsibility for income and welfare. Providing social protection is a key function of government in all economies, but in a market economy it should – in principle, at least – be mainly targeted at those vulnerable groups who need it most' (ibid.: 110).

A year later the World Bank slightly changes its previous agenda from the 'minimalist state' (World Bank 1997a), calling for increased 'effectiveness of the state' and renewing its focus on the state's role as 'central to economic and social development' not as the direct

provider of growth, but as a partner, catalyst, facilitator and regulator (ibid.:1,7). The Bank offered a two-part strategy, which consisted of 'matching the state's capacity to its role' and 'reinvigorating public institutions'. The report highlighted that this means helping the public sector in a developing country a) to define its role in line with economic rationale and with its own capacity, and b) helping it enhance performance, within that role.

The World Bank's recently announced strategy is a 'long-term institution building' in client countries through reforming public institutions and strengthening governance as a critical challenge in its lending instruments (World Bank 2000). The analysis of a recent World Development Report (WDR) 2000/2001: *Attacking Poverty*, shows that the Bank is seriously committed to pursuing good governance and improving public sector institutions, which typically involves fundamental changes in the 'rules of the game', as it regards these two as crucial strategies for poverty alleviation. Institutional reform according to this strategy is seen as a major instrument in tackling the root causes of poverty and ensuring sustainable development.

The United Nations Development Programme (UNDP) is an active promoter of governance reforms. It defines government as 'the exercise of political, economic and administrative authority in the management of a country's affairs at all levels' (UNDP 1998) and hence, governance, according to the UNDP framework, is much broader than that of the World Bank and ADB, including the private sector and civil society in addition to the state and its institutions. Related 'good governance', or more recently 'sound governance', notions are based on the ideas of participation, rule of law, transparency, responsiveness, consensus orientation, equity (opportunities), effectiveness and efficiency, accountability and strategic vision. The UNDP asserts that within this broader framework 'the reform of state institutions to make them more efficient, accountable and transparent is a cornerstone of good governance' (ibid.:3). In defining the role of the state UNDP adopts the same wider perspective to include the state as a focus of the social contract that defines citizenship as the authority that is mandated to control and exert force, having responsibility for public services, and creating an enabling environment for sustainable human development (ibid.).

As we can see, different strategies have been provided by international organizations but they are all interconnected in the sense that they imply certain goals, values, strategies and

processes, which challenge the role and the level of involvement of the state and government in managing the affairs in society. From recent World Bank documents we can conclude that in the developing world the World Bank justification for its strategies of institutional and governance reforms is based on the poverty alleviation motive, whereas the justification of reforms for transitional economies is based on the need for better management of transition reforms and to achieve economic growth. The UNDP has adopted a somewhat wider development strategy based on ensuring 'good governance for sustainable development'. As for the Western Europe, the Organization of Economic Cooperation and Development (OECD) and its public management departments as well bilateral official development organizations are major promoters of 'good governance' framework in their member states, including transition economies of Central and Eastern Europe, especially as part of the process of their accession to the European Union.

Despite variations in reform strategies and objectives, there is a consensus, that public sector reforms in a way that they have been carried out in western liberal democracies are all basically managerial reforms, based on the principles of 'new public management'.

2.4 New Public Management

The first problem arises when one tries to define NPM. Some attempts are normative (Fertlie et al. 1996). Others locate NPM in theoretical frameworks based on management science and public choice theory represented mostly by American writers, such as Downs, Tullock and Niskanen, which have developed highly pessimistic theories about bureaucracy (Aucoin 1990; Hood 1991, 1995). Hood (1991) provided one of the first definitions of NPM as a set of identifiable components, including hands on professional management, standards and performance measures, output controls, disaggregation of units, competition, private sector style management and discipline and parsimony. Rhodes, drawing from Hood (1991), saw managerialism in Britain as a 'determined effort to implement the "3Es" of economy, efficiency and effectiveness at all levels of British government. He provides a more or less complete definition of the new model, while arguing that the 'new public management' focuses on management, not policy; and on performance appraisal and efficiency; it disaggregates public bureaucracies into agencies which deal with each other on user-pay basis; it uses quasi-markets and contracting out to foster competition; it focuses on cross-

cutting issues and a style of management which emphasises output targets, short-terms contracts, monetary incentives and freedom to manage (ibid.:1). This view largely focuses inside the organization and implies that substantial changes are required, especially for personnel, but does not point to some of the main features of new public management.

The claim about the emergence of a new 'global paradigm' was made explicitly by David Osborne and Ted Gaebler in 1992 under the title 'Reinventing Government'. They assert that the world-wide ascendancy of a new 'global paradigm' in public administration is historically as inevitable as the rise of 'progressive' public management ideas in the USA in the late 19th and early 20th century (Osborne and Gaebler 1992:235, 328). This entrepreneurial model was summarized in terms of the following ten principles:

1. Steer the ship, rather than row it.
2. Empower the communities, rather than simply deliver services.
3. Encourage competition rather than monopoly.
4. Be mission driven rather than rule driven.
5. Find outcomes rather than inputs.
6. Meet the needs of customers rather than the bureaucracy.
7. Concentrate on earning resources, not just spending.
8. Invest in prevention of problems rather than cure.
9. Decentralize authority.
10. Solve problems by making use of the marketplace rather than by creating public programs.

This perspective derives from the view that government needs to be 'reinvented' rather than weakened. The ten principles taken together quite closely define NPM and its components.

The OECD's review of public management developments provides the following elements characteristic of NPM as a model (OECD 1995:15,28): devolving authority, ensuring performance, control and accountability, developing competition and choice, providing responsive service, improving the management of human resources, optimizing information technology, improving the quality of regulation and strengthening steering functions at the centre.

Pollitt (1995:133) claims that NPM is a 'shopping basket' from which countries choose to improve their public sectors. In his earlier work he concluded that the new public managerialism mainly consisted of the classic Taylorian management principles from the beginning of this century (Pollitt 1990). Common (1998) identified NPM with its key feature, that is the reliance on market-based mechanisms to deliver public services.

Despite differing interpretations of major tenets of NPM there is an agreement on the key components of genuine NPM, which include the deregulation of line management; the conversion of civil service departments into free-standing agencies or enterprises; performance-based accountability, particularly through contracts; and competitive mechanisms such as contracting out and internal markets (Hood 1991). To this list some also add privatization and downsizing as one of the most common initiatives of the package (Ingraham 1996; Minogue 1998; Polidano 2000), which are part of structural adjustment programs and are often the first stage of public sector reform. A UNDP report (1995:5) also asserts that 'privatization lies at the heart of the market-based approach to public management', while the World Bank report on transitional economies declared that 'public provision must become the exception rather than the rule. State intervention is justified only where markets fail' (World Bank 1996a:14), although some argue that the volume of privatizations in most developing countries remained too small to have made substantial dent in the overall share of the public sector in the economy (Cook and Kirkpatrick 1998). The most common element is corporatization – converting civil service departments into free-standing agencies or enterprises, within or outside the civil service (Polidano 2000).

2.5 Why NPM?

The new public management has emerged in developed countries. The common explanation for NPM is based on the traditional versus 'new public management' debate. The argument about the role of states and markets is a crucial one over which many scholars have been debating ever since the medieval ages, and which in some aspect concerned many great philosophers such as Aristotle in ancient Greece, Confucius in ancient China, and Machiavelli in medieval Italy. But the conception of an activist, bureaucratic state is a more recent

phenomenon characterised more clearly by the German sociologist Max Weber in 1920. The following attributes characterize the traditional and bureaucratic state:

- separation between politics and administration, and political leaders and administrators
- administrators are recruited on the basis of qualifications and trained as professionals
- functional division of labour, and hierarchical arrangement of people and tasks
- resources belonging to the organisation and not to individuals
- the principal motivation is a sense of duty and public interest, which overrides organizational or private interests

Reforms in public sector management and administration concern the same old concept of a state and its role. They are rooted on the neo-liberal assertion that the state had become *too large and over-committed*, and that the market offered superior mechanisms for achieving the *efficient* supply of goods and services. The critique mainly came from the New Right, which began to emerge referring to 'failures of government': the unresponsive but invasive state, the over-extended state and the 'private interest' state.

The second critique is based on the New Right budget-maximizing and bureau-shaping approaches to explaining the state/public sector growth, according to which over-centralized central government bureaucracies tend to grow and maximize their budgets. The last critique is based on the premises of the influential New Right theory of the state, which is predominantly rooted in the right-wing preoccupation with markets, and based on elements of the public choice school of thought. According to the New Right, people are rational, self-interested and rent-seeking individuals and inherently behave as customers in making economic and political choices. The main public choice approach uses the rationality of self-interested behaviour as a working postulate capable of producing explanations of political behaviour. The following paragraph examines their arguments in more detail.

In contemporary politics and economics the role of 'public choice' theory is pre-eminent (Self 1993). It is the 'public choice' school of thought which has come to influence reforms and policies carried out in the public sector across nations (Aucoin 1990; Dunleavy 1991; Self 1993; Clegg 1999; Lane 2000; McCourt and Minogue 2001). Public goods are central to public choice analysis, one of the basic purposes of which is to uncover and reveal the nature

of preferences for public goods. The issues raised were: What are public goods? Are they likely to be oversupplied or undersupplied? And how will they be distributed? Buchanan (1968) questioned the purity of public goods and suggested that there are many goods that could not be so easily defined as private or public and that some public goods can be excludable.

Public choice theory stresses the capacity of rent-seeking bureaucrats to expand public services and expenditure. While one approach of the public choice theory represented by Buchanan, Tullock, Olson, Niskanen and Grain suggested the oversupply thesis of public goods, the undersupply thesis, proposed by Galbraith and Samuelson, denotes the systematic undersupply of public goods because of the 'free-rider' problem and the citizen's incentive to consume more free or subsidized public good. The public choice school questions the notion of public interest as the foundation for the principal-agent relationship in the public sector (Buchanan 1986). They argue that the expansion of the public sector in developed economies is driven by fiscal illusions, egoistic behaviour by special interests groups, and institutional failures in the public sector. Only mundane interests, self-interests, and more-or-less narrow collective interests exist in the public sector (Larkey et al. 1981; Olson 1982; Wildavsky 1985). Their thesis regarding politicians' self-interest is that politicians are: teams of brokers trying to maximize votes; entrepreneurs exchanging particularist favours; advocates and beneficiaries of sectional interests; members of a collective conspiracy for exploiting an ignorant electorate; or individual mavericks who will follow whatever course offers the biggest material rewards. This argument is generally accepted and legitimized by other approaches within the market system.

Hayek, Friedman and others in the 'new right' camp asserted that the relationship between the public and private is best defined through the market and freedom of choice, rather than by the state operating in the 'public interest'. This shift from the 'new liberalism' to the 'new right' in public policy led to the emergence of a 'public sector management' approach and the demise of 'public administration'. The Niskanen theory of the budget maximizing bureau, and more recently Stigler's capture model, criticized the bureau model for the difficulty of reaching efficiency in public resource allocation, as well as regulation, based on the notion of asymmetric information involved in the interactions between bureaux and politicians, and between the regulatory agency and the firm under public regulation (Niskanen

1971; Stigler 1988). According to their findings, for bureaux to become efficient it was necessary that government either instructs it to produce the quantity of goods and services itself, or allows a firm to provide the goods and services in accordance with a regulatory scheme supervised by the bureau.

The adherents of efficiency in the public sector propose new institutional forms, which allow for more efficiency and effectiveness in policy-making and implementation. Short-term contracts under the internal market model are regarded as the most efficient form of governance. These are all assembled under the label of privatization. Now we move on to discuss the new governance forms suggested by public choice theory.

The combination of these critiques produced a reform model usually designated as 'new public management', which has become a powerful ideology executed in many contemporary states worldwide (Self 1993). The main propositions of the reform model is that the market is better equipped than the state to provide most goods and services, and that large state bureaucracies are inherently defective and wasteful and should be significantly reduced. According to their claim the defining characteristic of the traditional, activist state was its increasing propensity to intervene in all areas of economic and social life, with substantial level of state-ownership and control in key sectors and increased levels of state provision and management of services, both producing levels of public spending which were regarded in the 1980s as 'unsustainable' by developed economies (above 40 percent of GDP). In OECD countries government expenditure per capita almost doubled between 1980 and 1990 (OECD 1995). Therefore, the significant component of new public management reforms is *expenditure and cost reduction*.

Wright (1994) presents the financial-economic need for reform. The economic recession after the oil crisis of the 1970s resulted in enormous deficits of public budgets and the Western Welfare state proved unaffordable. The need to cut back the public sector and especially the enormous size of the inevitable retrenchments, form the major explanation for the necessity of drastic reforms in the structure and functioning of western governments. This interpretation has strengths in that it considered the changes in the external environment thus recognizing the interdependent and globalized nature of today's world.

Some raised a concern over public provision of goods and services that regarded *quality*. In industrialized countries, where the citizen is pre-eminently a consumer, the over extended state has been castigated for its low level of performance. At the same time concern with civil service delivery systems began to appear in the literature on developing countries (Dia 1996). As a result in the debate on governance reform 'restructuring the public sector' refers mostly to shifts away from the state and toward the private sector, or privatisation.

These claims that the reforms are being undertaken as part of the worldwide quest for *greater efficiency* and cost-savings, which is said to be the driving force of new public management (Minogue 1998), is true for most developed country reforms. Lane (1993) adds to this accountability as an important rationale, arguing that one should analyse the public sector reform drive in a comprehensive fashion as a search for efficiency or public accountability or both. He asserts that public accountability drive appeared to be more characteristic for the post-communist countries rather than the efficiency drive. Lane's accountability notion stresses, amongst others, the importance of 'human rights' and 'citizenship' dimensions of public accountability.

Some argue that in terms of public management a key rationale for reform is 'modernization' and westernization. As Giddens (1990) observed, modernization is 'inherently globalizing' and modernization itself is a process of *globalization*. Attempts are also made to associate 'policy transfer' with a process of *policy convergence* (Kamensky 1996; Castles 1982). The convergence thesis assumes an end of ideology in explaining the crucial differences in public policy between countries; as Castles argued, the convergence thesis postulated 'an increasing similarity in society, state and politics'. There are contesting views about the neutrality of NPM goals and objectives. Whereas Hood (1991) insisted that NPM's appeal was its apparent ideological neutrality -- 'an apolitical framework', or an applicable and neutral tool-kit for policy solutions in general, this 'apolitical' argument is strongly rejected by the many, who argued for the very ideological and political nature of 'new public management' (Mosley et al. 1991; Self 1993; Gray 1998; Common 1998). Lane (1993) does not deny opportunistic behaviour at the micro-level as one of driving forces behind NPM reforms. He suggested that managers found ample opportunities to strengthen their positions as a result of transforming state owned enterprises into joint-stock companies by means of their ownership of shares.

These are the general arguments behind NPM. NPM was interpreted as a universal remedy, a means of reducing the role of the state, of shifting public-private boundary and of underpinning existing power relations, for tapping individual or organizational initiative, for increasing consumer choice and for improving efficiency. In addition to the above mentioned, there are different approaches for interpreting NPM as a policy phenomenon, as a rule linking it with particular country contexts and circumstances.

The final group of arguments is about the very *ideological and political* stance of NPM and other reforms advocated and pursued by western governments and international organizations, such as the World Bank, IMF, USAID and British ODA. The motive is to force changes in the developing country economic policy during the 1980s (Biersteker 1995 cited in Common 1998). Mosley et al's (1991:65) remark on conditionality, as 'the vehicle which the Bank chose as a means of changing the economic policies of LDC governments', which is 'designed to ensure the execution of a contract' smacks of public choice theory (Common 1998). These can be supported by propositions raised by a number of authors about the deliberate efforts of '*voluntary and coercive policy transfer*' on the part of different actors, including developing country governments, international organizations, aid agencies and bilateral donor organizations (Dolowitz and Marsh 1998; Minogue 1998).

The ideological and political nature of reforms has been observed within national boundaries too. Thus, some point to the policies of Thatcher, as deliberate attempts to centralise the British state by strengthening the core government and weakening local level representative institutions. They also point to the attack on trade unions in Britain as an attempt to weaken working class mobilization (Gray 1998).

2.6 International Experience with NPM Reform

The experiences of developed countries have been well studied and recorded in numerous sources. Most of this literature is about industrialized country experiences, which practiced NPM, notably New Zealand, the UK, Canada and Australia. Amongst developed economies the most radical reforms have been carried out in Australia, New Zealand and United Kingdom (Lane 1993, 2000; OECD 1995; Minogue 1998; Schick 1998; McCourt and

Minogue 2000; Boston 2000). Various authors analysed their experiences from different perspectives; some providing generic explanations in terms of discourses involved, some concentrating on one or another particular aspect of reforms. In much broader sense, the reforms in these countries have been interpreted as an attempt to modernize the economies by engineering the free market along the neo-liberal thinking (Gray 1998). In Britain this era has come to be known as Thatcherism - an attempt to implant a variant of American free market as a social institution in Britain. In terms of the initial impetus, there are differing interpretations. Many agree that the reforms did not begin as a political project, linking the rise of Thatcherite policies in Britain and New Zealand to the growing unsustainability of corporatist structures in these countries while neo-liberal ideology was becoming a powerful influence in its own right (ibid.). Therefore they see the reforms as local responses to local problems.

The case of New Zealand was regarded as an exemplar of reform, and its experience has been widely emulated. Some of the main principles and specific policies were (Boston et al. 1996 cited in Lane 1993): delegating certain service delivery roles to private and NGO sectors; organization of commercial activities, which remained in the public sector on private sector company model; explicit statement of the objectives of all types of government organizations; separation of responsibilities between conflicting functions (commercial and non-commercial), distinctive roles (ministers and chief executives of departments), different functions (purchaser – provider, policy advice – regulation); the introduction of principles of contestability and competitive tendering into public services; minimization of agency and transaction costs. The policies included a reliance on incentives for enhancing performance, written contracts for a range of activities, simplicity in accountability relationships, and decentralization of decision-making on operational matters (ibid.:5). Also, a range of financial management reforms was introduced, designed to obtain greater value from public expenditure, to improve efficiency and accountability. The system provided for the introduction of accrual accounting to core departments to assist with monitoring government's ownership. The objectives were far too ambitious, including improving allocative and productive efficiency and programme effectiveness, accountability of public organizations and of the political executive, and reducing government expenditure and the core public sector. In the enterprise sector corporatization and privatization were to lead the reform with the extensive list of assets to be sold. The main reasons appeared to be fiscal (reducing public debt) and efficiency. The reforms differed from those in Australia in terms of contractual

relationships between ministers and chief executives, the distinctions between purchase and ownership, and outputs and outcomes. Reportedly, decentralization was not as prominent as envisaged, especially when central government accounted for 80 percent of education expenditure (Halligan 1997). The functional separation of roles was especially notable in the sector reform, which produced a 'contract system' of health care. The objectives stated were to encourage efficiency, flexibility and innovation in the delivery of health care and reducing politicization in resource allocation.

The World Bank (1995a) referred to the experiences of New Zealand and Australia as 'being leading examples' in reorienting and reducing government involvement in the economy. Analyses of New Zealand experiments with 'new public management' – the neo-liberal experiment, the most ambitious at constructing free market as a social institution – have revealed that one of the many side-effects of the reforms had been the creation of an underclass in a country that did not have one before. One estimate put 17.8 percent of the New Zealand population under the poverty line in 1991 (referenced in Gray 1998) with an astonishing loss of social cohesion as a principal cost of the reform.

In Australia, the reform programme initially consisted of political and managerial components, each including broad set of reforms. The objective was to replace a traditional approach which emphasized inputs and processes with a focus on results. Unlike in New Zealand, Australia's focus has been on applying new public management principles such as devolution, flexibility, accountability and outputs. Extensive reforms have been carried out in core public service. Thus a reformulation of the senior public service was a central component of the Australian reform programme, which started from establishing the Senior Executive Service – an internally mobile and service-wide executive group. The objective was to reduce the permanency of public servants and the public service's monopoly on advice to ministers (Halligan 1997). Also the year 1987 saw a major reorganization of the machinery of government, designed to improve the overall management of the public service by reducing the number of departments and enhance the quality and coherence of policy advice and programme design. On the financial management side, corporate management was established and programme budgeting was introduced, with annual evaluation exercises in the management cycle. And, finally, the commercialization of the public service was introduced with user-pays or fee-for-service operation, and a new accounting and auditing arrangement.

Thus within nine departments business units with separate accounts were established (Halligan 1997). On the economic side of reforms, there was corporatization and privatization of public enterprises, with the former being a major strategy in the late 1980s. Although decentralization appeared to be rare in the case of Australia compared to New Zealand, an agenda for rationalizing and decentralizing health and community services has been identified. The contract culture, competition and markets have been promoted since the inception of the National Competition Policy in 1993. The final detailed commitments announced in the Discussion Paper from the minister responsible for public service included such elements as a deregulated personnel system comparable to the private sector; a public service that contributes to policy development, implements legislation and provides oversight of service delivery; greater use of private and voluntary sectors to promote competition (ibid.).

Finally, British public sector reforms represent the earliest, most comprehensive and politically committed attempt to introduce a 'new public management' model (Dunleavy and Hood 1994; Minogue 2001). The major restructuring of the public sector was through a strategy of privatization, carried out by four successive Conservative governments in 1979, 1983, 1987 and 1992-97 (Minogue 2001). Compulsory competitive tendering was introduced in local government, known as 'market testing' at the centre, with the aim of establishing a contractual culture in the public service in the name of efficiency. As in the other two countries financial management reforms were introduced to increase accountability and efficiency. Another prominent reform measure was contracting out public services to a private contractor for a fee on the basis of competitive tendering for the purposes of efficiency. The main application has been through local government provision, but has also been introduced within the public service through purchase of services and internal markets (National Health Service). The restructuring of the civil service was carried out through the introduction of 138 executive or 'next step' agencies such as the Prisons Agency, Benefits Agency, Civil Service College, Office for National Statistics (ibid.). The objectives claimed were again efficiency gains and a more effective provision of services at lesser costs. Another innovation regarded as a 'success story' is the introduction of Citizen's Charter Programme (renamed Service First in 1998) with the objective of setting and monitoring performance standards. From the management perspective, the introduction of performance payments in 1996 was a major step forward towards setting up a performance management system in the future but, as literature revealed, it was an often 'disputed' and 'long-term' project (ibid.:33). The most recent

innovation was a tendency to create public-private partnerships, which combine collaboration of central or local government, and non-government organizations and private and voluntary sector groups.

The literature provides a very mixed picture as to the outcome and impact of these public sector reforms. The first and the foremost concern is raised with regard to methodological issues. Big questions arise with every evaluation or assessment exercise as these processes are heavily value-loaded and involve politics and power (Parson 1995). It is not easy to set up criteria for evaluation or assessment, and even if we come up with the right criteria, questions immediately arise with regard to who sets up those criteria and who carries out evaluation, is it the right time for evaluation, what is the time-span for evaluation (are we considering long-term or merely short-term effects and which one is more important?) and whether the measures are correct. The prime difficulty is, generally, the choice between values. And hence, most decisions are made based on political, interpersonal, international, ethical and other considerations, which put limits to rational policy analysis (*ibid.*). Despite the formal claims of increasing efficiency, effectiveness and accountability of the public sector, these initiatives entail a fundamental transformation in the notion of a unified civil service, public sector ethos and a paradigm shift from old public administration to a entrepreneurial 'new public management' (Dunleavy and Hood 1994; Minogue 1998, 2001; Lane 2000).

Many developing countries are experimenting with new public management reforms such as Malaysia's experiments with total quality management (Common 1999); the results-oriented management initiative in Uganda (Langseth 1995); and radical restructuring of Chilean education along internal market lines (Parry 1997). A number of countries are experimenting with UK-style executive agencies, including Jamaica, Singapore, Uganda, Ghana and Tanzania (Common 1999; McCourt and Minogue 2001). Creation of Social Funds to fund job creation and poverty alleviation in Latin American countries is a notable example of corporatization.

Chand and Moene (1999) present case studies from Ghana, Kenya, Malawi, Tanzania, Uganda and Rwanda, which merged their customs and income tax departments into corporatized national revenue authorities, allowing revenue authorities to raise salaries, shed

poor performers, hire better-qualified staff, offer revenue linked bonuses, and operate on a self-financing basis. Uganda was a star performer in terms of civil service retrenchment, cutting its civil service by more than half in the early 1990s. In most cases retrenchment is carried out by ridding the payroll of 'ghost' employees (McCourt and Minogue 1999).

The literature which deals with the implementation of NPM reforms provides a mixed picture. For instance, evidence of corporatization initiatives reveals a very mixed outcome. Latin American social funds are regarded as a considerable success with the classic case of Bolivia's emergency Social Fund, designed to fund employment-creating projects. In two and a half years it supported 2500 projects and created a huge number of jobs (Klitgaard 1991). Revenue authorities in several African countries have yielded impressive results. Ghana's National Revenue Service, for example, brought revenue intakes up from 4.5 to 17 percent of GDP between 1983 and 1994, despite cuts in tax rates (Chand and Moene 1999). Livingstone and Charlton (1998) present another success story: the Uganda Revenue Authority's increase in tax intake by 17 percent per year in real terms between 1991 and 1995.

On the other hand, health reforms in Africa appear to have produced few visible benefits. According to Larbi (1998) the new structures created within Ghana's health sector have made little difference – the management autonomy of hospitals remained low, the government lacked capacity to set performance targets for hospitals and information systems were too rudimentary to ensure effective performance monitoring. Many authors quote lack of budgetary resources as the fundamental constraint on what can be achieved through organizational change (Robinson and White 1998). According to Polidano (2000) government budgetary decisions rather than management reforms themselves are the primary determinant of the quality of service delivery. The genuine reduction in the number of civil servants is rather a difficult task for the whole package, and has only been carried out in a comprehensive and consistent manner by the government of New Zealand, where the estimated number of retrenched civil servants reached six hundred thousand.

Reform experiences in Central and Eastern Europe reveal a different picture, although the reform strategies applied to their public sectors are strikingly similar. Many authors who examined public sectors in those countries found that the context of reforms was different to that in the western liberal democracies. Thus, the administrative systems in CEE do not

correspond to the classical Weberian concept of bureaucracy (Verheijen and Coombes 1998), featuring structural and political instabilities with no clear separation between politics and administration, different recruitment and promotion practices, lack of financial resources and underfunding as a major constraint. In this context the radical reforms of liberalization, restructuring and privatization have been carried out along with public management and civil service reforms. In most of these countries the extent of reforms has been much deeper and on a much broader scale compared to western industrialized and developing countries of the south. Despite difficulties and structural constraints in these countries, the literature reveals a notable progress with reforms. Much of the official literature is optimistic about public sector reforms.

Nevertheless, doubts were expressed about the desirability of the NPM framework, stating that 'none of the main models applied in western Europe and in other OECD countries is suitable as a whole to resolve the specific problems CEE countries with severe resource constraints faced', pointing to the ideological-based strategy for administrative reforms (ibid.: 416). Instead a problem-solving approach was proposed, which is based on the selection of individual best practices in OECD countries, which would best suit the need of individual countries.

2.7 Critique of NPM

There has been intense, ideologically charged debate about the merits and demerits of the new public management. The most important critique should touch upon the fundamental values and principles of 'new public management' discourse.

Foremost, the critique focuses around the fundamental tenets of the New Right ideological and theoretical postulates about rational behaviour, rent-seeking state, over-extension of states and their bureaucracies, budget-maximizing behaviour of bureaux etc. Thus Dunleavy (1991) provides thorough analysis and assessment of the plausibility of two New Right approaches to budget-maximization and bureau-shaping to explain the state growth, privatisation and 'de-institutionalization' on examples of neo-liberal reforms in the UK and USA in the 1980s. His conclusions questioned the basic premises of the New Right

approach to bureaucracies, that rest on the assumption that there was a stark distinction between private self-interest and public interest often called '*public egoism*' and that bureaucrats' preferences were exogenously fixed. NPM premises were also criticized on the grounds of *naivete* about the nature of the private market and simplistic regard of the state, governance and public administration. Another stance of critique is concerned with NPM's preoccupation with managerial and administrative *technicalities*, such as establishing benchmarks, performance indicators, core functions, service products and outputs (Common 1998). The public choice theory on which the public sector and NPM reforms rest is criticized for the presence of inherent contradictions. Thus, although this theory calls for deregulation as a major policy instrument in reforming the public sector, it rejects both government regulation of markets and the whole notion of government creation of competition. According to Lane (1997) deregulation will not succeed without sound anti-trust policy-making, which fosters effective competition and levels the playing field for all participants in the market.

Most of the debates concern issues of the universality and globality of NPM, the desirability of reforms, the appropriateness of NPM agenda to developing and transitional countries in the form of a 'model' and 'panacea' against government failure. It is also said that new public management reforms are a common response to common pressures – public hostility to government, shrinking budgets and the imperatives of globalization. The assumption of a universality of NPM was, until recently, accepted by both its advocates and critics. But, the very 'global' and 'universal' character of contemporary public management reforms has been disputed by the number of authors, including Hood (1991, 1995, 1996), Pollitt and Summa (1997), Kickert (1997), Minogue (2001) and Polidano (2001). Polidano (2001), for instance, argued that while many developing countries had taken up elements of the NPM agenda, they had not adopted the entire package. Moreover, some countries were undertaking reforms that were unrelated or even contrary to that agenda. In fact, he put, the new public management was only one among the number of strands of reform in the developing world. Hood (1991, 1995, 1996) questioned the 'globality' and monoparadigmatic character of contemporary public management change, the very idea of a 'new global paradigm' in public management advanced by Osborne and Gaebler (1992). He argued that contemporary reform ideas were culturally plural and that the claims about international similarity in and continuity of contemporary public management reforms were somehow exaggerated. Dunleavy and Hood (1994:13) assert that 'plausible features in this area are

multiple, not single'. Some argue, that the quest for reforms are determined by reasons specific to the country concerned and question the universality assumption of NPM reforms.

Desirability of NPM has been questioned by many along the whole spectrum of NPM attractions on the grounds of insufficient evidence of efficiency gains, of increased effectiveness or of improved quality of service delivery as a result of introducing competitiveness elements of the reform. The competition element of NPM, which was mainly implemented in the form of privatisation and contracting out of services, was somewhat attractive for a number of countries, which introduced client-contractor models of provision. For instance, contracting out of core social services to civic organizations and NGO's along with private businesses is generally regarded as a genuine panacea for over-extended public social spending. The empirical evidence lacks persuasive literature on positive outcomes of these initiatives on the efficiency and effectiveness frontiers even in developed countries. For instance, Dunleavy (1991) pointed out high transaction costs involved in contracting-out and competitive tendering of public services. Others point out the poor outcome of broad-scale redundancies carried out with a zeal to save budgets on overstaffing and 'ghost' employees. According to Dunleavy (ibid.), in most cases redundancies do not involve real budget-cuts and 'job losses' as they tend to involve disproportionately high level of redundancies among low-paid and part-time workers, which as a rule include women and ethnic minority workers. Authors pointed out the existence of multiple entry points to public service organizations in developing countries, which may often jeopardise costly reform initiatives.

Profoundly strong critique emerged in the academic literature in relation to demoralization, demotivation and the despising of public ethos and ethics as a result of NPM efforts to sensitize civil servants to mere efficiency of goods and services (Kickert 1997; Dunleavy 1991, 1994). Concerns have been raised over the principles of public good and public interest, which the simplified notion of *efficiency* of public goods and 'marketization' of public sector will inevitably alter, thus transforming citizens into customers and officials into producers, motivated by the logic and rewards of the private market place. There is, in general, a shared consensus on the presupposition that managerialism, open competition, impropriety and downgrading the skills of civil service for those of business management lead to a dilution of the civil service culture or ethos (Lawton 1998). Schick argued, in relation to transitional economies, that extensive use of contracts, apart from bearing enormous

transaction costs on top of refrained financial situation, might make it difficult to build a modern system of public administration that incorporates traditional values of public service and public ethos as well as essential qualities of personal responsibility and professionalism (Schick 1998).

Many observed that the most obvious result of reform in policy implementation areas is in institutional fragmentation of state administrative and service delivery apparatus. Central government and its ministries are fragmented into various executive agencies. At local levels services are delivered through combination of local government, agencies, the voluntary sector and the private sector, making policy implementation, control and monitoring more difficult in addition to communication and transaction costs.

An important, and perhaps the major, aim of NPM reforms to reduce the state by reducing its role in the provision and administration of services produced a wave of critique from its opponents. Kickert (1997) called it 'policy contradictions' and 'policy paradoxes' as many of the reform elements are inherently contradictory, which resulted in opposite to anticipated outcomes. For instance, the reform end purpose of a retreating state will inevitably require a strong state to initiate and implement the reforms. The second problem is associated with contracting-out when in many cases the general civic sector had been used by donors to bypass the state rather than to work on its behalf. The model assumes a major role for the private and civic sectors, albeit providing services on behalf of rather than as an alternative to the state. Hulme (2001) suggested that civic organizations might be more effective as critics rather than as providers of public services. The more radical critics see in NPM another attempt at 'rolling back the state', another step in the disarmament race of government, which interprets the victory of capitalism over communism as the victory of the market over the state. Dunleavy (1991) argues that privatization normally entailed reduced quality standards or decreased public or consumer control over service provision without affecting policy-level bureaucrats.

Serious concerns were raised about reduced public control and public accountability, as managerial discretion has been put high on the agenda. Under the drive for efficiency and cost-savings many social programmes have been reduced with drastic retrenchments and redundancies, especially in the social sector. Rhodes (1997) argues that since the reforms, the

British government has undergone a significant decrease in political accountability in spite of the view that the major outcome of NPM was the increased accountability and responsibility of civil servants.

Authors also question the appropriateness of NPM as a public management model for developing countries (Common 1998; Minogue 2001; Schick 1998). Schick (ibid.) makes powerful arguments about the dangers of a New Zealand approach. Particularly appropriate for developing and transitional economies is the argument that these economies, unlike New Zealand, have neither a robust market sector with which the government can negotiate contracts, nor established judicial procedures for enforcing such contracts. There are several points that had been made in opposing the transferability notion. Some also point to the dangers for countries that try to apply New Zealand type reforms in an environment which does not share similar legal and cultural characteristics. Thus, in the case of continental European countries, such as Germany and France, 'downsizing' inefficient government operations turned to be a problem due to the high degree of job security of government employees, defined by law (Allen 1999). There is also an old 'policy transfer' debate. Dolowitz and Marsh (1998) make clear, that 'policy transfer' is a tricky and complex process, and suggest a new framework for analysing 'policy transfer', which includes 'voluntary' and 'coersive' transfer of policies by national political elites. Besides this, the wholesale 'policy transfer' is criticized based on the argument that national administrative cultures are unique and distinctive, and in various ways resistant to the application of one 'best model' (Minogue 2001).

In general, the literature on 'new public management' reveals a shortage of comprehensive evaluation and assessment of the outcome and impact of public management reform experience in countries, which had experimented with the new model. According to Pollitt (1995) there is not much evaluation evidence of NPM reforms even in developed countries. This leads Minogue (2001) to argue for extreme caution in introducing reforms, whose success, even in industrialized countries, is unproven.

2.8 Conclusion

Clearly, over the last two decades the public sector reform has become a major preoccupation of many governments in developed and developing worlds although reforming and modernizing the public sector has always been the centrepiece of government policy-making. The long-term goals of these and the reforms initiated in transition economies are the same: to build a thriving market economy capable of delivering long-term economic growth. In the case of developed countries, NPM seems to be a logical response to the overextended state and global and internal financial pressures and resulted in a major shift in state-society relationship in these countries. Public sector reforms as they have been carried out in post-communist countries in CEE are engaged in much deeper reforms, which transcend simply managerial pre-occupation with performance, efficiency and cost-saving. The 'new public management' reforms have been implemented as part of generic transition reforms from centrally planned socialist to a capitalist market economy. While NPM in developed countries aimed foremost at increasing efficiency and effectiveness, in the latter countries, NPM reforms involved transformation of the nature and the institutions of governance.

Civil service issues and public administration in general appear to suffer from lack of an accepted analytical framework. Public choice school theory and new institutional economics are said to provide the building blocks that underpin the theory of NPM. There is substantial literature on NPM reform, provided from different standpoints and perspectives. Many agree that something like a paradigm shift has occurred in the last two decades, with the old assumptions about the state being replaced with an entrepreneurial model of government and 'new public management' (Minogue 1998). Some see it as the 'inevitable' and 'global movement' to a single NPM model (Osborne and Gaebler 1992). Dunleavy and Hood (1994) see the possibility of other plausible intermediate models, which produce the best of two worlds.

The review of literature on public sector reform and its implementation experiences suggest that it is hard to define clearly, what constitutes the essence of reforms and to identify a clear boundary which would delineate 'the old' paradigm from 'the new'. 'New Public Management' is a slippery label, which is commonly described as a new management culture. The analysis of country experiences showed that various reform paths had been followed by

individual reformers, employing multiple strategies and policy options, often with quite differing motives and drives. For instance, despite the similarities, the experiences of Australia and New Zealand feature major differences with regard to the framework, the institutional design and the reform process.

There are also contested views regarding the drive for NPM reforms. Along with efficiency factors and arguments about historical inevitability (Hughes 1998) or as a natural response to crisis and cataclysms, some point to their very ideological nature. There is a general consensus that in the era of globalization the international organizations such as the United Nations and its specialized agencies, the World Bank, the International Monetary Fund, the OECD and the Asian Development Bank played crucial role in introducing and internationalizing these concepts, through their policies of structural adjustment in developing nations, project and program aid. Despite the existence of broad discussions about the plausibility, desirability and appropriateness of new public management as an alternative to traditional methods of public administration, there is little examination of the outcomes of such NPM reforms as have been tried in the developing and transitional countries.

It is difficult to make generalizations across nations, focusing on individual country cases and their experiences with NPM type reforms without analysing the experiences from a wider policy perspective, taken separately from the broader internal and external environments and political system. NPM itself consists of multiple strategies and the outcome will obviously depend on many factors, including the initial contexts, the depth and scale of reforms and objectives pursued. The evidence does not support conclusions either for or against the transferability of NPM to developing countries given the diversity of contexts and differing reform agendas. The success or failure depended upon localized contingency factors, which play a predominant role in determining the reform outcomes.

Chapters 5 and 6 present the experience with the NPM reform in a context of a small country, Mongolia, with a view to providing perspectives to NPM and related debates, based on the analysis of public administration and civil service reform. In doing so, we will use the analytical frameworks that have been reviewed in this chapter, placing them in a broader framework and context of economic and political transition. We shall start first by introducing the background conditions for NPM based reform in Mongolia in order to gain fullest insights

into the driving forces that shaped the design and influenced the implementation and outcome of the country's experience with the 'new public management' model.

CHAPTER THREE

MONGOLIA BEFORE 1990: SOCIO-ECONOMIC AND POLITICAL CONTEXT

3.1 Introduction

Following the policy approach to analyzing public policy adopted in the research, we will begin our analysis of the central public administration and civil service reform in Mongolia with a brief introduction to the background political and socio-economic contexts. This chapter sets the scene for discussions of Mongolian transition reforms, which began in 1990, by introducing the overall political and economic system and prevailing social contexts in the country prior to its reforms. Mongolia, by virtue of its geographical position, was the second country in the world after the Soviet Union to have attempted the radical social re-engineering experiment by introducing a centrally planned socialist economy after 1921. The emphasis of this chapter is on the state, governance structures and features of the Mongolian public administration and its civil service.

3.2 Country Profile

3.2.1 Geography and Natural Resources

Mongolia is a land-locked country in North-East Asia bordering with the Russian Federation to the north and the People's Republic of China to the south, east and west. Mongolia is almost three times the size of France, about one third the size of the United States, and is the 19th largest country in the world.

Three main topographical zones are mountains in the north and west; the intermountain basins; and the steppe, including vast semi-desert and desert areas in the Gobi, which covers

75 percent of Mongolia. The country has a variety of vegetation zones of which four percent are alpiners, eight percent are taiga forest and 26 percent are forest-steppe, with desert-steppe and desert occupying respectively 19 and 22 percent of the total territory (MNE 1996). The high altitude, about 1,600 meters above sea level on average, produces a semiarid, continental climate, resulting in long, cold winters (-25° in January, reaching -40°C), with average temperatures falling below freezing for six months of the year. Also some of the highest barometric pressures in the world have been recorded in Mongolia. Ulaanbaatar is the coldest capital in the world, with severe weather conditions that result in a higher percentage of budget expenditures being allocated to heating. As a result, 12 percent of the health budget and 20 percent of the education budget is spent on heating.

Mongolia is well endowed with natural and mineral resources. 80 percent of its land is suitable for extensive animal husbandry, which includes traditional herds of cattle, horses, camel, goats and sheep. Intensive crop cultivation is limited by the short growing season and sharp fluctuations in temperature, which can vary as much as 30°C in a day. There are more than 6,000 occurrences of about 80 different minerals including coal, iron, tin, copper, gold, silver, tungsten, zinc and fluorspar, as well as semi-precious stones and industrial and building materials.

3.2.2 Demographic Characteristics

The Population Census of 2000 estimated 2.317 million people living in Mongolia, of which a quarter lives in the capital city (NSO 2000). The structure of the population exhibits an interesting feature: it is a relatively young, healthy, and well-educated population. In 1990 about 70 per cent of the population was under 35 years old, half of the population was under 20, and about 45 percent of all Mongolians were under 15 years of age. The population has nearly doubled during 1925-1990, from only 684,000 in 1925. Until recently Mongolia had one of Asia's highest natural rates of population growth at 2.4 per cent a year. Ethnically the population is homogenous, with the mongol-speaking group accounting for 95 per cent of the total population. There is no state religion, but Buddhist Lamaism is being encouraged for worship. Mongolia is divided into 21 provinces (*aimags*) and one municipality (capital-city Ulaanbaatar), with appointed governors and elected local assemblies. The principal language is Mongolian.

3.3 Brief Political History

Mongolia was predominantly a feudal country, although some argued that the country was predominantly tribal (Rupen 1964). Location of the country between two of the world's biggest nations has had major implications for Mongolian statehood. Thus, in the 1720s Mongolia was conquered by the Manchu-Qing Dynasty (which had already colonized China) and remained under its subjugation for 267 years. A national movement during the 1910s to gain independence from this colonization resulted in a revolution, which liberated the country from the Manchu. Mongolia proclaimed its independence, when the 8th reincarnation of the Jebtzundamba Khutuktu, the 'Living Buddha', ascended to the throne of the Bogd Gegeen, Head of Church and State in 1911. The interests of its neighbours, Russia, Japan and China combined, and Mongolia was granted independence with only nominal conditions of semi-autonomy. But the semi-autonomy was liquidated by China, with the help of the religious government (Bogd Gegeen) in 1920. The second wave of anti-colonial and democratic movements, which gained support from Soviet Russia in 1920, resulted in the birth of the Mongolian People's Party (MPP) in March, 1921 (Brown and Onon 1976). The MPP proclaimed people's (popular) democracy and democratic centralism as key principles of governance (ibid.). This was the birth of the party, which dominated the political arena in Mongolia during much of the 20th century. A constitutional monarchy was established the same year, but the system was abandoned following the ruler's death.

The first Constitution, adopted in 1924 at the First State Hural, established the Mongolian People's Republic (MPR). From 1924 until 1945, the Soviet Union remained the only country which recognized Mongolia's independence. Full recognition of Mongolia's sovereignty and independence came later, when the country finally joined the United Nations in 1961 after a series of unsuccessful attempts. By 1990, Mongolia maintained diplomatic relations with over 90 countries.

The development of a command economy dates from the late 1930s with the start of massive nationalization of livestock and organization of rural herders into *negdels* (herder cooperatives). The aim was to economically eliminate the only remaining class of property owners – private herder households, which at the time owned considerable numbers of livestock (1000 average) – and to establish collective ownership of the majority of livestock.

Herder households were only allowed to own up to 50-70 head of livestock depending on the region. The central role of the public sector was firmly established in 1960 by the new Constitution, which reaffirmed the socialist orientation of Mongolia. The next two decades witnessed a strengthening of ties with the USSR, and increasing industrial and mining activity, facilitated by Soviet aid. By the mid-1980s, mounting internal and external imbalances, as well as political and economic reforms in the USSR, spurred relaxation of central control (IMF 1991).

Three major political figures dominated the period from the mid-1930s through 1984. Kh. Choibalsan had consolidated his control of the Mongolian People's Revolutionary Party (MPRP) by the mid-1930s and remained in power until his death in 1952. Under his leadership the aim of developing a centrally planned state was reinstated and theocratic power destroyed. Yu. Tsedenbal, who assumed party leadership in 1952, was the architect of Mongolia's command economy and, in 1974, he formally assumed the role of head of state. His tenure was marked by ever increasing close ties with the USSR and economic and political isolation of Mongolia in the international arena. The deterioration of Sino-Soviet relations in the late 1960s led to a return of Soviet troops in 1969, and the 1970s saw a further strengthening of economic and political ties between Mongolia and the USSR. Yu. Tsedenbal was removed from office in August 1984 in the wake of reforms, and a moderate government headed by Batmunkh – formerly Chairman of the Council of Ministers – was formed in December 1984.

3.4 Economy

Mongolia received a formidable, relative to the size of its economy, amount of Soviet aid, largely in the form of investments and grants and assistance loans³, with which the country has been gradually transformed from a rural, essentially nomadic economy to one with a large industrial sector albeit inefficient by western standards. This aid, in combination with special economic and trade arrangements established within the Council for Mutual Economic Assistance (CMEA), permitted the economy to run large fiscal and external deficits and to enjoy relatively high rates of economic growth that reached up to 7 percent between 1981-

³ The Soviet term for turnkey projects and equipment loans, which accounted for two thirds of capital inflows for the last two decades prior to 1990. The remainder was trade loans.

1987 (World Bank 1994a). Mongolia's economy was closely integrated with that of the Soviet Union and other countries of Eastern Europe and the development strategy followed that of the Soviet Union. The means of production were brought under state or collective ownership, the economy was as far as possible subjected to central planning and there was an emphasis on the development of mining and heavy industry. As part of the modernization project the bulk of resources were allocated to the industrial sector, dominated by a small number of large scale and capital-intensive plants. The major policy measure during 1930-1960 period was cooperativization of individual herding households, similar to Soviet peasants' collectivization. In Mongolia this took a form of cooperativising thousands of scattered herding households to establish *negdels*, economic units based on socialization of means of production. The state procurement system was established, which helped *negdels* to survive. As a result of this movement, by 1959, 97.7 per cent of *ard* (people) households had been cooperativised. This policy was part of the programme of eliminating 'feudalist' relations in a largely pastoral Mongolia and establishing 'socialist production relations' in its rural economy. The development strategy was based on five-year plans and focused on physical production targets.

Economic growth accelerated sharply during the 1960s and 1970s, although it moderated toward the mid-1980s. Per capita income increased by 16 per cent, total industrial production increased by 38-40 per cent, agricultural crop farming increased by 60 per cent, total livestock economy product increased by 30 per cent (NSO 1996). Industrial activity was assisted by Mongolia's insulation from the impact of world oil price increases. Under the CMEA arrangements, Mongolia received very cheap energy, oil and other industrial inputs. Also, the USSR and other member-states provided cheap consumer goods and technical assistance through large numbers of advisers, specialists and workers, who worked in various industrial turn-key projects in Mongolia. By 1960, trade with the CMEA countries accounted for 94 percent of Mongolia's exports and 76 percent of imports, rising to 97 percent by 1970. The main industries, including mining, food processing and light industry were set up in the 1970s. During 1971-85 an increased share of spending was directed towards industry, while investment in agriculture was further reduced. New investments in mining, mainly as joint ventures with the USSR, helped accelerate the growth of industrial output. A Price Institute was created in 1971 and in 1975 wholesale prices were set uniformly for comparable goods. Gross industrial production rose almost six fold between 1960 and 1980, reflecting the

emergence of new enterprises. By 1989 the share of industry in the composition of GDP reached 32.7 per cent, trade and material technical provision – 19 per cent, agriculture – 15.5 per cent, services – 13.4 per cent, transport – 10.4 per cent and construction – 6.1 per cent (NSO 1998a). Thus, industrialization served two purposes in Mongolia, first, for building the national economy based on rapid industrial development, and second, for creating the national working class.

In terms of the public expenditure pattern, education claimed the largest share of government expenditures. It accounted for 17.6 percent of the state budget and 11.3 percent of GDP. Other social expenditures were social security (7.7 percent of GDP in 1990), health (5.4 percent of GDP), housing and community amenities (4.3 percent), general public services (3.1 percent), and recreation, culture, and services (2.0 percent). Defence accounted for 4.5 percent of GDP, public order and safety for 1.0 percent, and economic affairs for 21.8 percent (Ministry of Finance figures). In line with the objective of the state administration, total public expenditures amounted to 64 percent of GDP, and the budget deficit to about 13 percent of GDP. The state employed virtually the entire labour force of 650,000 employees. Of the total working population, 27 percent was in agriculture, 20 percent in industry, 8 percent in construction, 8 percent in transportation, 6 percent in trade, and 28 percent in government, education, health care, research, banking, housing and municipal services (World Bank 1994a).

But along with these positive developments for a once pastoral subsistence economy, there had been mounting internal and external imbalances. Domestic prices, which were not adjusted according to higher costs of import inputs, resulted in a distorted structure of investment and output. Budgetary subsidies rose, but were not matched with domestic revenue increases. While the Government made no direct use of bank credit, it had direct access to credit through enterprises. Imports rose and the trade deficit with the CMEA countries in 1984 was six times that recorded in 1970. By the 1980s, the structure of the economy exhibited imbalances in favour of commodity production, rather than production of more value added and knowledge-based goods. This economic structure was a dependent one. In 1989 trade occurred overwhelmingly with the Soviet Union and CMEA countries (90 percent of exports and 93 percent of imports) (NSO 1998a).

3.5 Society

During the Soviet era Mongolian people took rapid strides in many aspects of human development – with particularly impressive gains in health and education (HDR 1997). The state was directly responsible for the universal provision of free health care and education of all levels, these rights were guaranteed by the Constitution. The Ministries of Health and Social Protection, Education and Labour existed at the centre with offices at local government levels. Local government officials usually were employed to implement and administer the state policy. Besides the above Ministries, there were numerous other state bodies which fulfilled other social development functions within their respective Ministries.

Standards of health, education and social protection reached high levels with about 40 percent of government expenditures devoted to social development (ADB 2000b). The range and amount of benefits and allowances offered by the formal social safety net were wide and generous, and included various benefits and allowances for mothers, young children, the disabled and the elderly. Various indirect benefits, such as consumer subsidies, also made part of the formal safety net. The pension and other benefits, including 90 per cent paid sickness leave, holidays, treatment in sanatoriums and leisure resorts, although funded by the state, were delivered through a wide range of semi-state, semi-party organizations, such as the trade unions, the Mongolian Women's Association, and youth and children's unions. In addition, state enterprises financed various social schemes for their employees, including subsidized lunch, free kindergarten and nursery care for employees' children, maintaining summer holiday resorts, medical check points and free transportation. There was no recorded poverty, and social living standards and human development were relatively high compared to countries with similar per capita income levels (HDR 1997). Understandably, all this was made possible by huge injections of Soviet aid and assistance from other CMEA countries.

Between 1960 and 1990, life expectancy increased from 47 to 63 years, and by 1990 almost everyone had access to health services, including herders in the vast and remote steppe lands. Education standards too were high; in 1989 96.5 percent of the population were literate (HDR 2000). The gross enrolment ratio in primary schools was 103 percent in 1990 (IMF 1991). Women had shared fairly equally in this progress – they made up more than half of higher education graduates. Mongolia has a history of substantial gender equality. Women

occupy a high status in Mongolian society, were well educated and well represented in most occupations. They have equal or better access than men to education and employment opportunities (NSO 2000). Female enrolment is higher than males in most levels, including university education. Women's participation in the workforce was also high. In education and health sector approximately 75 per cent of staff were women (IMF 1991). Active prenatal policies resulted in almost doubling of the population growth rate during 1940-1990 (from 1.52 per cent to 2.8 percent) (Table.3.1).

Table 3.1. Social Indicators

Indicators	1989
GDP per capita (current US dollars)	522
Population statistics:	
Total population (in thousands, end of year)	2,095.6
Population growth (annual growth, in percent)	2.8
Crude birth rate (per thousand)	36.0
Crude death rate (per thousand)	9.3
Life expectancy at birth (years)	
Male	62
Female	66
Public health:	
Number of physicians	5,715
Physicians per thousand population	27
Hospital beds per thousand population	118
Labour force:	
Total labour force (in thousands)	633.2
Industry (percent of total)	18.9
Agriculture	29.4
Male	48.8
Female	51.2
Education:	
Enrolment	
Primary	103
Secondary	100
Colleges and universities	30

Source: World Bank 1991

3.6 Political System

As a centrally planned socialist economy, Mongolia shared many features common to other countries of the CMEA. Firstly, the embrace of Marxism-Leninism as the single legitimate conceptual and ideological framework, with which the political elite guided the

country's social and economic development, was the main feature of its political system. Secondly, Mongolia had a single-party political and electoral system with the MPRP as a dominant force. The MPRP's aim was to strengthen political consolidation of the party, state and people with the final aim to 'shift Mongolia from feudalism to socialism' (Brown and Onon 1976). Until 1992, the MPRP was the only party in Mongolia's political arena, without formal opposition, and had stayed in power for almost 71 years.

Although it is argued that the pre-occupation with constitutional formalities in former socialist countries did not shed much light on the realities of their political systems, as political processes differed widely from formal constitutional structures (White and Nelson 1986), we shall refer to these documents to look at political, social and economic foundations of the pre-1990 Mongolian state as seen by its leaders.

The MPR was defined as 'a socialist state of workers, cooperativized *ards* and working intellectuals based on the alliance between the workers' class and the cooperativized *ards*'. The MPRP was a 'vanguard force' of the society and the 'core' of the political system and state and public institutions. The Party policy and its 'political leadership' were seen as 'the basis of the operations' of the supreme legislature and the executive government.

The economic basis of such a state was 'the socialist system and the socialist ownership of the means of production, an economy of the socialist system, the abolition of the private ownership of the means of production, and the liquidation of man's exploitation by man...and two forms of socialist ownership, state and cooperative'. The task of the government was 'to protect and strengthen socialist property, ensure active participation of all members of society in economic and cultural activities' among others. But the most fundamental role of the state was to 'undertake operations with respect to economic organizations and education' and direct the national economy and culture through 'long-range plans'. A popular principle in distribution was 'from each according to his ability and to each according to his work' (Article 2, para. 17). About 75 percent of the national income was devoted to meeting the individual needs of members of society, with the rest on meeting the needs of the society (Brown and Onon 1976). Citizens had the right of cooperative ownership of public enterprises, including livestock, and of limited private ownership of herds (up to 90 heads). Other rights included equal rights to participate in the nation's social, political, economic and

cultural life and to work, rest, obtain social insurance and study. Citizens who reached the age of 18 had the right to elect and be elected to the representative organizations, including the People's Great Khural (PGH). But certain aspects of personal freedoms and core political liberties of citizens were remained suppressed given the mono-party system and reliance on mass political, economic and social mobilization.

The political system was overly centralized without separation of powers between the legislature, the executive and the judiciary. Supreme power formally resided in the upper house, or People's Great Khural (Fig. 3.1), the chairman of which was also a member of the MPRP Politburo (since 1980s). The nominal election of 370 delegates to the Great Khural took place once every five years (changed from three years to five in 1981) to elect a deputy from every 2,500 citizens. The Baga Khural, the lower house or Presidium, which formed the legislative body before it was abolished in 1949, was elected by the PGH, and its chairman was head of state. A similar legislative structure existed at the *aimag* (provincial) and *soum* (county) levels.

The legislature consisted mainly of the elected representatives of herders and workers as well as technocrats with a small minority of intellectuals. Thus, out of 287 deputies elected to the PGH in June 1966 only 63 represented the capital city with 218 deputies elected from predominantly rural Mongolia (Sanders 1968:17). Also, of 287 deputies 131 were technocrats (88 central and local government *bureaucrats* and 43 MPRP *apparatchiks*), another 130 were workers and herders (60 and 70 respectively) and 21 were intellectuals, including teachers, doctors, animal husbandry technicians, actors, engineers and scientists.

The Council of Ministers, the top of the Executive Government structure, was elected from the PGH and was chaired by the First Secretary of the MPRP (at a later stage), and included the Administrative Department, Control and Audit Commission, and a Legal Committee. The number of Ministries, State Committees, and Special Agencies reached 70 in 1979. By 1989, the government comprised 16 Ministries and 26 State Committees and Commissions. Local government was exercised through the People's Deputies' Khurals, which existed at every level of territorial administration (*aimag*, *soum*, *bag*) in the cities and rural areas. These local khurals met more or less regularly to discuss and make decisions on local development issues, and in effect served as local parliaments. Day-to-day administration

tasks were fulfilled by local Executive Committees, which were composed of 5-9 members, including a chairman, deputy chairman and a secretary. The Committees were directly accountable to the respective People's Khurals, which nominated them as well as to the Executive Committees of the People's Khurals of the higher administrative division.

The law was regarded as 'superstructural' phenomena destined to 'wither away' when the socialist utopia is achieved. Moreover, the idea of a legislative supremacy accorded the entire judiciary system and the legal profession a secondary role regarding them as mere civil servants. Therefore there was no independent judiciary system as understood internationally. The Supreme Court of Mongolia had the highest judicial power, and administered, controlled and monitored the activities of all judicial organizations in the country. The Supreme Court was elected by the PGH for the terms of four years, and as such it was directly accountable to the PGH and its Presidium. Similarly, local level People's Khurals elected their own local Courts for the terms of three years. Besides this official network of courts, citizens exercised the degree of judicial power by directly participating at local level court decisions in terms of people's prosecutors. Every citizen, who reached 23 years of age and with no recorded criminal history, had the right to be elected as a judge or prosecutor of the People's Court. The control over the implementation of laws at the national level was exercised by the State Procurator, nominated by the PGH for the terms of four years. He was directly accountable to the PGH and its Presidium. Local level procurators were nominated by the State Procurator for the terms of 3 (later 5) years.

Figure 3.1 State Structure, 1960-1990
 Source: Parliament Library

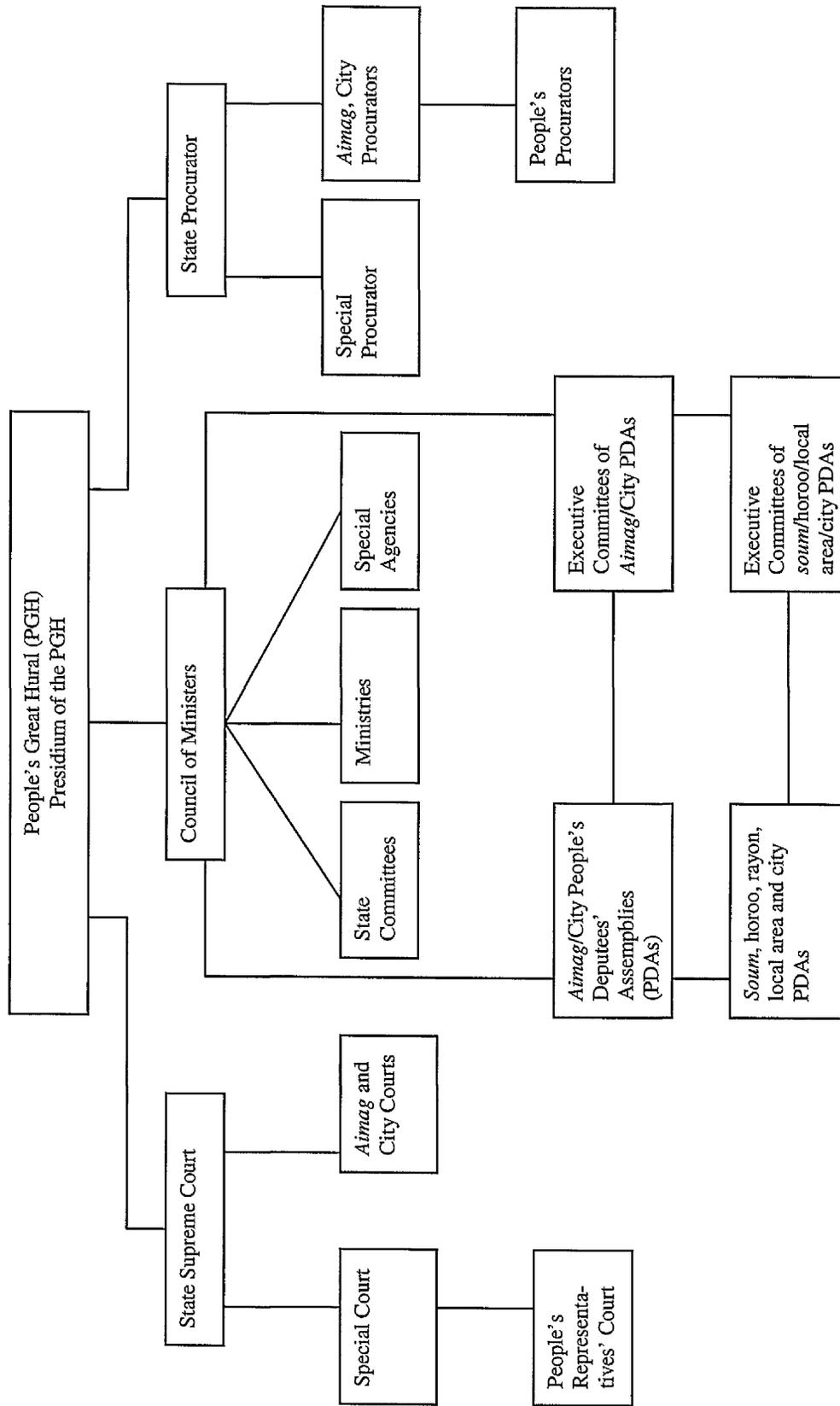
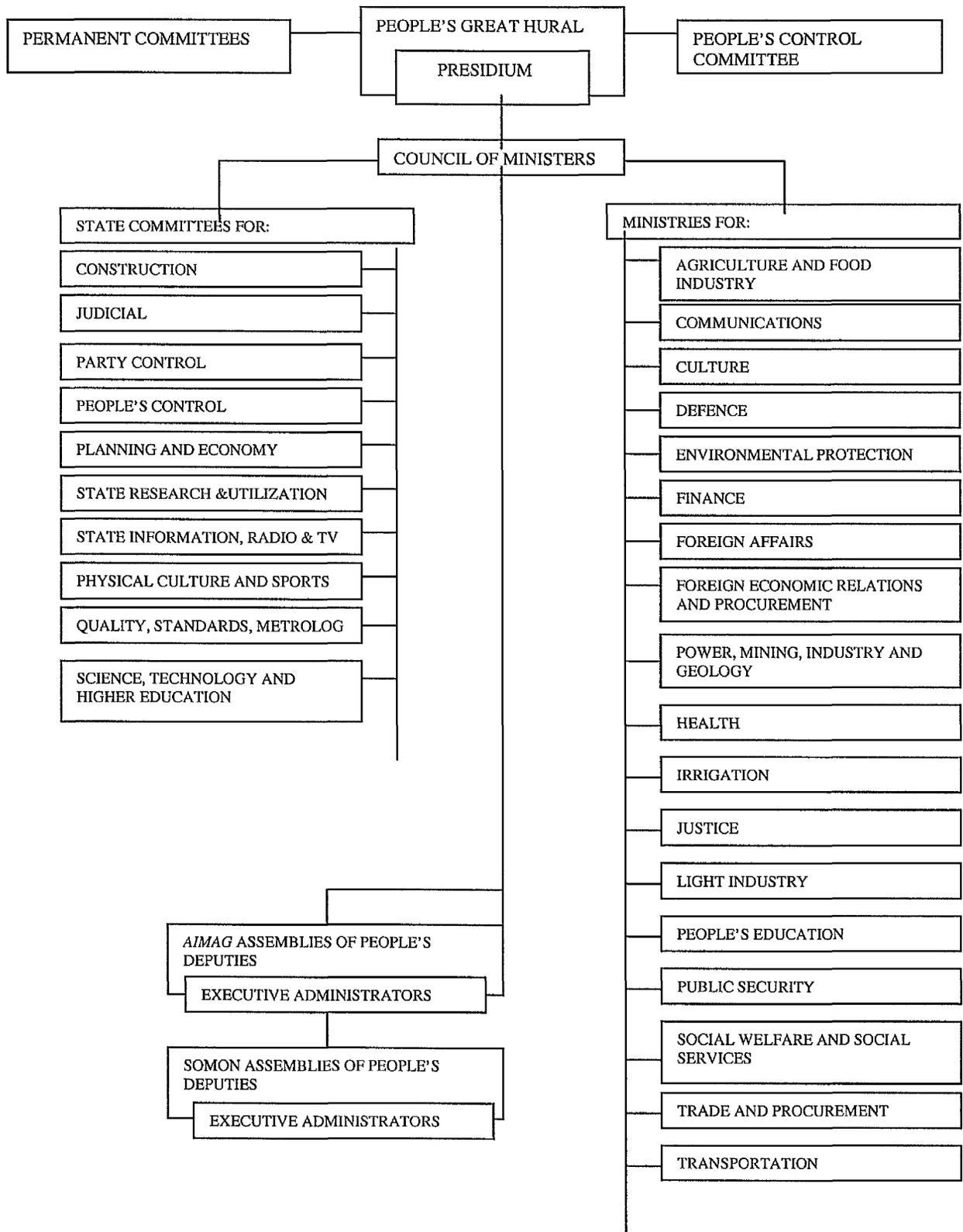


Figure 3.2 Government Structure, January 1990



3.7 State Administration

The operation and structure of the entire Mongolian political system and state administration was closely modelled on the Soviet 'socialist state administration' system. The main tenet of this model was the leading role played by the Mongolian People's Revolutionary Party in a national development administration equipped with the ideology of Marxism-Leninism such as party leadership, democratic centralism, the rule of the socialist law, transparency, democratic participation of the people, equality of all nationals and ethnic groups, planning and accounting.

State administration was defined as: *'an organizing activity of state administrative organizations carried out under the guidance and control of the Assemblies [Khurals] of People's Deputies, and aimed at executing the state functions toward enforcement of state laws and managing the economic, social and political organization'* (Amarkhuu 1986:24). The MPRP exercised direct control over the entire state administration, consistent with the principle of the 'proletarian dictatorship'. The 'essence' of operation of every state administrative organization was to 'implement the Party decrees and State laws' (ibid.). The system was known as a command and administrative model of the centrally planned economy with its mechanisms of subsidies and equalization. The operational principles and institutional structure of the government is presented in Appendix 1 and Figure 3.2. The role of the state was manifold, including strengthening of the democratic law, promotion of people's participation (mobilizing role), economic management, administration, education, agitation and propaganda.

The role of the MPRP in state administration was 'political mobilization', 'control' after implementation and 'cadre' work. Political mobilization was implemented through the party formulation of policies and national development plans (which then were nominally discussed at the PGH and approved by the people's delegates) and extensive network of primary level Party Committees and cells, which existed at every organizational level. The Party control was exercised by imposing strict procedures and regulations and planning and exerting hands-on control over every aspect of the economy and society from ministries⁴ to state enterprises and budget entities, including schools and hospitals through its numerous control committees

⁴ Deputy Ministers and Deputy Directors chaired the MPRP local Committees at the ministries and enterprises.

and departments, which oversaw various aspects of economic and social life. The central control was exercised through the activities of the Party Control Committee under the MPRP Central Committee (MPRP CC), which worked alongside with the State Control Commission attached to the Council of Ministers and quasi-independent People's Control Committee. There were 674 Party Control Committees which carried out control functions at the centre and locally. In overall, 16 thousand people worked in these three control agencies (Brown and Onon 1976). The claim was that the control function was carried out communally from the Party, State and local public commissions and posts.

The 'cadre' politics was controlled by setting up selection, recruitment, training and promotion principles and criteria, keeping up to date the list of officials loyal to the party and control over the implementation of 'cadre policies' in the localities. Important decisions on recruitment were made, usually, centrally by the special Personnel Department under the MPRP Central Committee. At the organizational level, the candidates underwent scrutiny by the personnel officer, who was a member of the party. In general, all critical positions were held by those 'loyal' to the MPRP members as the selection criteria required. The cadre training sought to instil qualities such as 'being uncompromising toward shortcomings, to have principles, militant and communist character' and in the selection 'their political and ideological steadfastness, honesty and integrity, workmanlike character, and organizational talents and capacities' were to be made prime considerations (Amarkhuu 1986:78). The social/class origin was one of the important criteria in the early years – the preference was to be given to 'lower class' people.

The main cadre training institution was the Party Higher School attached to the MPRP CC, which trained specialists with higher political education. Although, in overall, the salary and wage schedules did not differ greatly to ensure equality, skilled work in high demand was remunerated higher than low or unskilled work which was in less demand, taking into account the degree and skill level of employees and workers. Wage differentiation was more pronounced in industry. For instance, of the nine-grade schedule, established according to labour intensity, the labour wage coefficient of Grade 9 was three times than that of Grade 1. Government administrative employees were paid according to the established wage scheme differentiated by post and ranks.

Moral incentives were widely used to compensate for equalization of wages, such as awarding titles (Best Teacher, Leading Worker, Labour Hero etc), broad publicity of their achievement, and participation in Conferences of best performers for popularizing best experience. Also, various mass mobilization campaigns and competitions (intra- and inter-organizational) were organized by the ministries and public and voluntary organizations. The aim was to improve organizational/unit performance by encouraging collective spirit and teamwork rather than individual competition. Collective performance benchmarks and production targets were widely used to increase productivity.

This political and administrative system has seen harmful consequences of the cult of personality, massive repressions in the 1930s and violations of the law due to lack of democratic participation. It has also seen repressions based on 'left and right divergences'.

The prime objective of the MPRP-centred socialist state administration was the state control of the economy, including administration of the economic sectors and organization of the production, and foreign and domestic trade. The role and the size of government began to expand rapidly in the late 1950s, reflecting the greater role of central planning and the growth of urban centres and industry. As the government role was central not only in the economy but in all spheres of human life including state funding and provision of health, education, housing, communal services as well as sports, culture, arts, entertainment and even leisure activities, the size of the central and local government was, accordingly, large. By the 1970s, there were more than 70 ministries and state committees.

This economic role of the government was reflected on its composition and structure. The ministries were 'fully responsible for the administration, operation, development, implementation of planned targets and implementation of other priorities of their respective sectors' (Amarkhuu 1986). Therefore, the number of ministries was fairly large, their organizational structure reflected the structure of the sector and each ministry oversaw all enterprises in the sector. State enterprises were owned and supervised by the central government (Ministries), *aimags*, or *soums*. For instance, before September 1990, the Ministry of Heavy Industry was responsible for enterprises that produced coal and other minerals, electricity, forest products, and metal and machine products (mostly spare parts). They accounted for almost one third of national income, 45 percent of exports, and employed

fifty thousand workers (about 8 percent of the labour force) (NSO 1989). The Ministry of Agriculture, and Light and Food Industries oversaw enterprises that produced agricultural raw materials, and that processed agricultural raw materials (food, textiles and clothing, footwear and leather goods, soap, matches, ceramics, and printed materials). The Ministry of Construction was responsible for enterprises involved in building houses, paving city streets, and construction in agriculture and industry and so on. Until the new Law on Cooperatives was passed in 1988, ministries also had control over state cooperatives in their sectors, but since 1989 these organizations have gained substantial autonomy, while remaining under the supervision of their respective ministries.

Besides the Ministries, the State Committees were responsible for inter-sectoral management functions, such as planning functions, supply and procurement functions, labour and social welfare functions, price and standardization functions, science and technology and so forth. As such, they also performed monitoring and regulatory functions and provided methodological support to the ministries. They operated on the principle of collective leadership through meetings of the committee members. Special agencies were responsible for implementing functions of overseeing certain sectors, enterprises and organizations which remained outside the competencies of the ministries (State Bank, State Statistical Office, Meteorological Department, Civil Aviation Transport Department and so forth).

In addition to MPRP control, the executive government was also subjected to control by elected public control committees, which after 1965 were established at every enterprise and organization. Since 1972, the control system has seen expansion with the establishment of the People's Control Committee, accountable to the PGH, and which reported its findings to the Presidium of the PGH and Council of Ministers. Its extensions were set up in every organization and enterprise. Apart from dominating in political and economic spheres through the party (MPRP) and various quasi-state organizations (Trade Union, Women's association, Youth's Association, Young Pioneers and so forth), the state closely oversaw the moral side of society. The socialist principles were strongly propagated in society, through mass media, culture and education.

By the end of the 1980s, by which time the economy was showing rigidities and inefficiencies, not least due to the weakening of democratic decision-making and

accountability mechanisms in state administration, the country's leaders experimented with various innovations aimed at increasing administrative and productive efficiency known, for instance, as 'New Incentive System for Planning and Economy', 'Perestroika' and 'New Economic Mechanism'. Some governmental restructuring and reorganization was initiated. The state functions were gradually combined, so that by 1988 the number of ministries and state committees had been reduced. According to the 1989 data, there were four Special Boards, six State Committees, 13 ministries and 17 agencies. The total number of employees in these organizations was only 2,400, excluding those in the Council of Ministers and MPRP Central Committee. But, as with the economic reforms, these structural measures did not challenge the essence and foundation of the old administration, aiming to increase the administrative efficiency of the existing system.

Despite the idiosyncrasies inherent in the traditional Stalinist development model followed by Mongolia, its achievements made during the socialist period were in many regards quite respectable (World Bank 1992a). Illiteracy was virtually eradicated and by the late 1980s Mongolia had a highly educated labour force. Similarly, health care and other social services were comparatively well developed. There was virtually full employment and little if any abject poverty. Strategic military interests lay behind large Soviet investments in the transport infrastructure, thus reducing the isolation imposed by distance on much of the country. Some observed that despite the rigidities of the single-party political system, the general movement in the socialist political systems was toward greater choice (Sanders 1987). The next chapter presents and analyses the collapse and restructuring of these forms of political and economic governance in the period since 1990.

CHAPTER FOUR

ECONOMIC AND POLITICAL TRANSITION

4.1 Introduction

Since the dissolution of the CMEA and the collapse of the socialist system, Mongolian society has seen colossal changes and transformations in its political, economic and social structures similar to those in other transitional economies of Central and Eastern Europe (CEE) and Commonwealth of Independent States (CIS). Initiated by successive governments with generous support from multilateral and bilateral international organizations, the reforms aimed at transforming Mongolia's economy into a 'market-oriented economy' and the mono-party political system dominated by the MPRP into 'a multi-party parliamentary system' and, on this basis, facilitate the integration of the country's economy into the global market. After more than a decade of systemic transformation the country is still amidst a turbulent process of change facing profound challenges that stem from a too rapid disruption of old structures while new structures are still being put in place.

The central concern here is to explore the background conditions for reforms in the Mongolian public administration and civil service, focusing on major socio-economic and political developments that have taken place since 1990 to understand the extent and complexity of factors that impacted upon decision-making and implementation, and a complex set of causal relationships between the political, economic and social sector reforms. Contextual dimensions of management reforms are analyzed in connection with broader governance, legal and institutional reforms during transition. The chapter reviews the overall transition reforms by presenting a historical snapshot of economic, political and social developments in Mongolia. The questions addressed are:

- What has been happening in Mongolia since 1990 in terms of economic, political and social development?

- What were the objectives and strategies for the country's generic transition reforms? What was the nature of these reforms?
- What can be said about the overall background environment or context for public management and civil service reform in Mongolia? How has this context shaped the progress of the reforms?

The chapter does not claim comprehensiveness of analysis and assessment of the entire spectrum of transition reforms *per se* as this is beyond the scope of the thesis. Its focus is limited to key political and socio-economic developments in the country over the transition reform period, in order to introduce a wider framework within which public management reform was taking place.

It is organized into four main sections. Section 4.2 briefly introduces key political developments and reforms in the political system of Mongolia from the broader governance perspective, accentuating preconditions that created pressures for change and necessitated policy choices. Section 4.3 presents a review of major economic developments at the onset of transition followed by the brief analysis of economic reform with emphasis on the overall reform strategy. Importance is attached to policy, institutional, financial and management aspects of macroeconomic reforms. The final section presents an overall background socio-economic context for central public administration and civil service reforms.

4.2 Creating a Decentralized Institutional Framework

4.2.1 Political History

Disillusionment with the prospects of the economy, including its failure to provide for material needs of the people, coupled with a lack of human rights and personal freedoms, had grown by the end of the 1980s. Alongside, deep social discontentment and nationalistic sentiments had been rising chiefly among national democrats, whose aspirations for nationalism and traditionalism had not been realized under socialism. Inspiration for these sentiments came first from political upheavals in Eastern Europe, the fall of the Berlin Wall, and 'openness' and 'perestroika' in the Former Soviet Union (FSU). Also, the policies of

'openness' (glasnost) promoted by Gorbachev allowed Mongolia to pursue relatively independent foreign and domestic policy. Between 1987 and 1990 Mongolia established diplomatic relations with several Western countries including the United States of America in 1987, the European Union in 1989 and Republic of Korea in 1990. By 1991, it has broadened international cooperation and expanded trade partners by joining the International Monetary Fund (IMF), the World Bank (WB) and the Asian Development Bank (ADB).

Between 1989-1992 democratic processes gained momentum, old political institutions and structures were dismantled and the foundations for democratic governance were set up. Following the emergence of a Democratic Union in 1989, several other popular movements were established including the Democratic Socialist Movement (1989), New Progress Union (1990) and Mongolian Students Union (1990) and others. By spring 1990, for the first time in 70 years, three major forces existed on the political arena: the ruling Mongolian People's Revolutionary Party; newly emerged pro-democratic political parties and popular movements; and non-government and voluntary organizations involved in political actions.

In 1990, besides MPRP ten more political parties and over 1,000 non-government organizations (NGOs) were registered with the Ministry of Justice. The process culminated in a series of popular demonstrations and hunger strikes in Ulaanbaatar's main square in March 1990, organized by democratic forces, which demanded putting an end to the MPRP domination, dismantling the PGH (parliament) and establishing a provisional parliament with a view to adopting a new constitution and an election law. Consequently, at its extraordinary session, the MPRP agreed to the demands and announced the resignation of its Politburo and the Secretariat.

Mongolia has held 3 parliamentary and 3 presidential elections since the adoption of its new Constitution in 1992 (Table 4.1). The general trend is toward a greater consolidation of society. From over 20 political parties only the MPRP and Mongolian Democratic Party gained seats in the SIH (State Ikh Hural – new parliament) in 2000. The 1992 and 2000 elections were overwhelmingly won by the MPRP. The victory of the Democratic Union in the 1996 elections (50 seats) confounded foreign observers and surprised the leaders themselves. Many attributed its success to the increased unpopularity of the 'shock-therapy' inflicted upon the economy and society. An important role was played by domestic and

foreign non-governmental organizations, including the Konrad Adenauer Stiftung, which initiated a comprehensive Voter Education Project, and the Asia Foundation, which had generously supported newly emerged domestic NGOs as part of its democracy strengthening activities in Mongolia. The International Republican Institute (IRI), which has worked closely with the Democratic Union since its very birth, also provided assistance in campaign strategy, 'to convince squabbling opposition forces to form a coalition' (Thayer 1997:19) and to devise a 'Contract with the Mongolian Voter', a document similar to the Republican Party's 1994 'Contract with America' (Rossabi 1999). The four-year period between 1996 and 2000 proved to be a very volatile and unstable time for Mongolia in terms of both its political and economic development, when the new government came up with the most far reaching and radical reform agenda. The 'governance crisis' emerged, when the country had seen four governments in office and prolonged periods of political deadlock without acting government.

Beginning with the SIH elections in July 2000, Mongolian voters went to the polls three times, electing a president, parliament and local governors. In each case, voters returned the MPRP back to power, 'reeling from the pain and uncertainty of their transition to democracy' (IRI 2001). In parliament the MPRP now holds all but four seats. In all cases the voter turnout has been high – a sign of a high degree of politicization in society, although the more recent elections feature a considerable decline in voter turnout. By 2004 only two major political parties, the MPRP and the Mongolian Democratic Party, dominated the policy arena. The process of political mobilization is still continuing, partly due to political instability, economic turmoil, deteriorating social conditions, persistent poor performance of government institutions at all levels, perceived policy mistakes, implementation gaps and, associated with this, lack of trust in the Government among people. This might well be part of a natural process of broadening democratization and political participation.

Table 4.1 Election results

Elections	Year	Party mandates (out of total 76)	Voter turnout (percent)
State Ih Hural (parliamentary)	1992	MPRP – 69	95.60
	1996	Democratic Coalition – 50 MPRP - 25 Mongolian Traditionalist Party – 1	92.15
	2000	- MPRP 72 - Citizen Will and Green party Coalition 1 - Democratic Coalition 1 - Mongolian New Democratic Socialist Party 1 - Independent 1	82.43
Presidential	1993	P. Ochirbat (Democratic Coalition)	92.73
	1997	N. Bagabandi (MPRP)	85.06
	2001	N. Bagabandi (MPRP)	82.94
Local Citizen Representatives' Hurals	1996	N/A	71.96
	2000	N/A	60.74

4.2.2 Dismantling the Old Centralized State Administrative system

It is commonly accepted that political reforms in most transition countries went on peacefully (except for Romania and to some extent Russia) and successfully. In the following paragraphs we shall briefly review major reforms that shaped Mongolia's *peaceful and swift political transition* in contrast to transitions in other Asian and even CIS countries that initiated no major break with their past or in which the reforms went more slowly.

The first multi-party elections held in June 1990 resulted in the victory of MPRP with the overwhelming majority of seats in the SIH. A new Cabinet was formed with the collective responsibility to include representatives of both ruling and opposition parties⁵. The first parliamentary session held in 1992 approved a new democratic constitution and renamed the country as Mongolia. The whole range of new laws pertaining to governance were adopted during these initial years of transition (see section 4.2.4) and important amendments were made to other regulations regarding human rights and the judicial system, thereby providing the groundwork for furthering governance and judicial reforms.

⁵ Although MPRP as a majority party was entitled to form its own Cabinet, the decision was made to form coalition government.

The prime objective of political reforms at this early stage was to eliminate the central role of the MPRP. This was done through the adoption of the Law on Amendments to the Constitution of 1960, which dismissed the leading role of the MPRP, endorsed the multi-party political system and removed restrictions on private ownership. To replace the power vacuum, it established the Baga Hural⁶, an upper chamber of the parliament, introduced President⁷ as formal head of state and Chief Justice as head of Supreme Court. Baga Hural exercised a wide range of powers, including powers to appoint and recall a Prime Minister, Chief Procurator, Chairman of the People's Control Committee, government members (ministers) and to pass ordinary legislation in between the SIH sessions. The Baga Hural was elected by proportional representation and opposition parties won 40 percent of the seats. It was instrumental in adopting a new Constitution and securing further political and economic reforms until its abolition in 1992.

Also, the 1991 Law on Political Parties established the list of non-political government positions, including the President; court administrators and members, judges, procurators, inspectors; state employees in the armed forces, police, security forces, prison staff and diplomats among others. Another resolution required the political neutrality of the staff of the Ministry of Foreign Relations. The amendments to the Pension Law made in mid-1991 introduced early retirement benefits by bringing the eligibility age down for both men and women⁸. These measures were successful in cutting off the head of the old administration and dislocating the administration by encouraging the renewal of cadre by a younger generation of recruits. The extensive party local network, which was present in the central and local government, state enterprises and every organization, was abolished. The new party Basic Policy Direction adopted at its 21st Congress in 1992 reads thus:

'The Mongolian People's Revolutionary Party is a political organization, national democratic in nature, which represents and protects fundamental interests of our people by promoting national unity and social progress. The MPRP, in respect of the sovereignty, independence and unity of our nation, the unique historical and cultural heritage of our people, patriotic and collectivist ideals and humane principles,

⁶ As a transitional arrangement.

⁷ President is often called a 'symbolic President' as his major role is to symbolize the unity of the nation. Apart from being Chief Commander of the Army, awarding national medals and orders, his powers are somewhat limited.

⁸ This move later became a strain on the budget current account. The pension reform is pending since 1999.

espouses universal values of freedom, equality, justice, democracy and market economy' (MPRP 1992: 2).

Subsequently, the MPRP took a reformist stance by abandoning the Marxist-Leninist ideology, and reorganized itself to become a centre-left political party, national democratic in nature.

Further reorganizations at this stage included the abolition of the Committee for Dealing with Administrative Workers and Adolescents under the PGH, the Council of Agricultural Negdels (state cooperatives) and the Price and Standardization Committee following the liberalization of prices, privatization of livestock and dismantling of the state cooperative sector in agriculture. In addition, all quazi-government organizations such as the Trade Unions, the Council of Mongolian Women, the Mongolian Revolutionary Youth League, Young Pioneers Organization and others, responsible for political mobilization of the people, were discarded as the remnants of the past.

The first multi-party elections, held in July 1990, brought the MPRP back into power with 62 percent of the vote. The Great Hural was more conservative with an overwhelmingly rural MPRP membership. The MPRP had the strongest support from rural herders and farmers, and local communist leaders in the countryside had much more name recognition than opposition figures. Although the Great Hural was dominated by the MPRP, the party elite agreed to establish a coalition government with the opposition parties, and four cabinet posts were assigned to them. The deputy prime minister in charge of economic affairs was assigned to Da. Ganbold, the leader of the National Progress Party which ran on liberal economic platforms. The transitional government and the newly formed Baga Hural initiated rapid legislative and institutional change, culminating in the ratification of a new Constitution in 1992. Among the very first policy measures⁹ was the restructuring and streamlining of government departments responsible for economic policy-making. The UNDP Technical Assistance Project was initiated to support this process in late 1990.

⁹ They included doubling of prices, elimination of subsidies, legalization of the private ownership of herds, formulation of the extensive and radical privatization programme, passing legislation to establish a market economy, disbanding of the secret police and establishing a commission to examine the purges of the 1930s.

In line with the shift from a centrally planned economy to a market economy the centralized state administration system was disbanded. The Council of Ministers with its Presidium was abolished. The central government was restructured with the abolition of all 11 State Committees except for the State Committee on Environment. The heart of central planning, the State Committee for Planning and Economy, was abolished thus putting an end to centralized planning of the economy. In its place the Ministry of National Development (MND) was established from the remnants of the old committees. From August 1991, MND began to perform the secretariat function for a newly established Economic Policy Committee¹⁰, headed by the First Deputy Prime Minister. The number of ministries was reduced from 18 to 11 with the abolition of Ministries of Foreign Economic Relations and Supply, Communication, Irrigation, Light Industry, Public Security, Social Economy and Services and, finally, Transportation. The two ministries responsible for the provision of welfare functions of the state were abolished. To the remaining list three Ministries were added: Ministries of National Development, Finance and Labour, reflecting an orientation toward regulatory state functions. These institutional reforms reflected the withdrawal of the government from productive/material sectors, centralized trade and procurement consistent with the overall strategy of transition.

Combined together these measures effectively removed the old centralized monetary and financial control system. Alongside these reforms in the state machinery, economic reforms such as privatization of agricultural cooperatives, livestock, retail and service sectors as well as small and medium-size state enterprises were well underway (section 4.3.2). By mid-1992, just eighteen months after the beginning of reforms, approximately 90 percent of small and medium enterprises (3,500) were already privatized¹¹. Five hundred large entities – 200 industrial and 300 agricultural - had been through the privatization process and 70 percent of livestock was already in private hands,¹² reflecting the withdrawal of the state from direct management of the economy.

¹⁰ The Committee was itself disbanded in 1993.

¹¹ The privatization process is not considered here as it falls beyond the scope of the research.

¹² Report of the Privatization Committee, Government of Mongolia, August 1992.

4.2.3 Concepts of New Constitution

The 1992 Constitution was important in the sense that it provided a conceptual framework for the new governance system and defined the country's developmental objective. Firstly, it has abandoned the main strategic objective proclaimed by the Constitution of 1960: to 'complete building socialism with a view of building in the future a communist society in Mongolia' (Preamble to Constitution 1960). Secondly, it proclaimed that 'striving to build a humane democratic civil society' was a supreme objective of the nation and identified strategies for achieving this objective. Thirdly, the Constitution has defined the conceptual framework for the reformed state by promulgating political, economic, social and moral foundations underpinning the new society. These include: the centrality of the state as opposed to the centrality of the MPRP/hegemony of the proletariat; political pluralism; recognition of all forms of ownership; fair competition; rejection of the class approach; depoliticization of the spiritual life by abandoning the 'socialist ideology' and recognition of the 'pluralism of opinion and thought'. Democracy, justice, freedom, equality, national unity and rule of law are fundamental values and principles of state administration in Mongolia (Article 1.2), in contrast to the 1960 constitution that declared democratic centralism, rule of the socialist law, equality and socialist planning as basic governance principles. It has abandoned the principles of the 'unanimity of power' in the political system by adopting a 'separation of power' doctrine: the political system comprises three mutually accountable branches: legislature (parliament - SIH), executive (President and Government) and judiciary (Courts and Constitutional Court). Finally, it established the form and structure of the state, including its administrative and territorial composition and their governance (decentralization and self-governance).

The new constitution reaffirms the superiority of individual rights and personal freedoms and interests over collective ones. This move reflects a fundamental change in the relationship between state and society – the shift from state-centred¹³ to human-centred society (Chimid 2002). It also liberalized relations between individuals, state and society, and recognized plurality of opinion and freedom of belief. The notion of a sovereign nation-state, which in the past was suppressed along with nationalism in favour of proletarian internationalism and solidarity, was strongly enhanced. According to its drafters, the entire philosophy behind it

was to ensure political, economic, social and all other guarantors of Mongolia's 'independence and sovereignty' (ibid.). This philosophy, perhaps, has been reinforced also in light of the collapse of the Comecon as well as resultant changes in Mongolia's external position after 1990.

The key shift in values was recognition of the legality of diverse forms of ownership 'following both universal trends of world economic development and national specifics' (Article 6.1). This was the fundamental break from the past, when the state not only 'recognizes all forms of both public and private property' but also 'legally protects the right to ownership' (Article 6.2). These economic foundations were regarded as guarantors of national sovereignty and personal freedoms in Mongolia and, as such, are closely related to the issue of the role of the State and human rights. Among many basic rights and freedoms that the State granted to its citizens are property ownership rights, including immovable assets such as land¹⁴. In terms of social relations or relations between various social groups, the approach was to shift from a focus on social class relationships or class conflicts to one which emphasizes relationships between the State and its citizens as a key social relation.

The old mono-party political system was rejected and political pluralism and respect for law have been recognized not only as basic governance principles, but also as major tools of democratic political control. Political parties, non-governmental and voluntary organizations, media and other social institutions have been recognized not only as promoters of human rights and freedoms, but also as legitimate institutions of political, economic and social governance.

Broadly speaking, political reforms with regard to establishing the institutional framework for democratic governance, were, by and large, accomplished by 1993 and basic legislation with regard to its functioning has been adopted. There have emerged clear signs of political democratization of the Mongolian society. For example, today, there are 19 political parties and over 2,200 non-governmental and voluntary organizations, of which 700 are human rights organizations and watchdogs (HRC 2001). Political debate takes place uncensored, and includes a broad spectrum. A free and lively press and media have emerged,

¹³ or party-centred

¹⁴ Land Law was adopted only in June 2002.

with 525 (in 1996) and 220 (in 2000) newspapers, 4 independent TV and 16 cable broadcasts, 50 independent TV studios and 22 wide and short wave radio stations and 6 radio studios, 11 press agencies, 6 internet news web sites (ibid.), and all these are for the population of 2.4 million people. Religions of all denominations can be practiced freely. A comprehensive legal reform programme has been launched to secure the rule of law and, more importantly, develop the regulatory and legislative framework to support the operation of the market economy.

In recent years, though, there have been intense debates on the flaws in the new political system. Much criticism is in relation to making the system more efficient, representative, just, open and accountable to the people. Voices are raised in favour of presidential over parliamentary democracy given the economic downturn and severe social disruption. Others see the crisis as a result of the 'incapacitated state' – a weakness of the constitution, which did not clearly specify power and accountability relations and enforcement mechanisms between the three branches of government. Underdeveloped political culture, over-politicization of society, narrow interest of political parties despite the lack of discernable theoretical platforms, and lack of clarity over longer-term national development priorities characterize the current policy process.

4.2.4 Legislative Framework

In order to achieve the goals stated in the Government Memorandum on Economic Reform and Medium-Term Policies, there was an urgent need to establish a basic legal framework within which society could evolve itself politically and economically.

The key document that defined the governance framework was, as we saw, the Constitution of 1992. At the macro-level, it has replaced a vertical political system in which the legislative, executive and judiciary functions were fulfilled exclusively by the socialist state dominated by the MPRP, by a horizontal system with independent legislature, executive and judiciary (Figure 4.1). The executive and the judiciary branches of government, which were subordinate to the People's Great Hural (legislature) during the old regime, were empowered by abandoning the legislative supremacy of the State Ikh Hural. The

decentralizing component of the Constitution was, in addition, the principle of governance itself, which combines centralized governance with local self-governance. Local government was recognized as a basis for democratic power thus allowing for the separation of local self-government from the central authority of the state. Local self-governing bodies were provided with important jurisdictions to make independent decision-making with regard to basic issues in their local area and to organize (by way of delegation) or support provision of public services. Also, Article 66 (3) says '*if the Parliament and the Government (Cabinet) deem it necessary, they may refer some matters within their competence to Aimag and the Capital City Hurals (Local Assemblies) and their governors for their resolution*'. This provision for the delegation/devolution of power to local administrative and self-governing bodies created solid constitutional grounds for decentralization.

The Supplementary Law to the Constitution adopted in January 16, 1992 provided for the 'transition from Constitution of the Mongolian People's Republic to the Constitution of Mongolia', i.e. the overthrow of the old system of legislation and 'modernization of legislation in line with the new constitution' during 1992-1996' (Article 5). Accordingly, the Law on the Council of Ministers (Government) of 1988 that defined the old vertical structure of government ceased to exist. Since then efforts have been made to establish the legislative framework necessary for a new decentralized political and economic system. The period between 1990-1993 was a period of intense law-making and complex negotiations between political parties and individual leaders. In 1992-1993 related bylaws were adopted such as Law on State Ikh Hural, Election Law, Law on Constitutional Court, Law on the Composition of the Cabinet, Property Law and Enterprise Law, Law on Budget, on Presidency, on Government (amended 18 times), Law on Administrative Responsibility (amended 22 times) and Law on Courts, that established the legal status, organizational structure, functions and procedures for governance institutions and regulated their relationships with other institutions/legal entities. Within a year, 35 crucial laws and bylaws were enacted by parliament. Several working groups were set up under the President which drafted laws for the new system. The Legal Reform Program was adopted repeatedly, in 1998, 2000 and 2004, to set the new basic directions structured upon the appraisal of new demands for further reforms.

Of particular importance for analysis is the Law on Government of Mongolia. It defines the structure and functions of the Government, and sets out basic principles of government activities (GOM 1993a). The government was no longer required to directly 'administer the economy' through centralized planning targets and 'execute the affairs of the socialist state' under the 'MPRP control and guidance'. Instead, it became the 'supreme executive body of the state' with the main function of 'implementing the state law and executing general functions of managing the economy and society'. The key function of the socialist government to 'protect by all means the core of the socialist economy – the socialist property' ceased to exist. The MPRP control over the appointments in the executive was eliminated. The role of the State Ih Hural in intervening in the process of appointments to key executive positions in the government was also diminished. The prime minister now proposed to the State Ih Hural for its nomination the structure and membership of his own cabinet upon consultation with the President (Article 39.2-3).

The framework for a decentralized governance system was further enhanced by the adoption of the Law on the Administrative and Territorial Units and Their Governance (1994a). It defined the structure, composition, competencies and governing principles of local government bodies in Mongolia and regulated the relationship between them and between local and central government. Basically, the governance at the local level replicates the governance at the central level. The Law has introduced anew the lowest territorial and administrative unit *bag* and local Governors, who exercise the central authority in local areas. The law also defines the structure and composition of local self-government – Local Citizen Representative Hurals. As a result, instead of the MPRP, the local governments had much more authority and discretion over local policy-making and execution.

Other common laws such as Law on Land (1994), Law on the Legal Status of the Capital City (1994), Education Law package (1995), Law on State and Local Property (1996), Health Law (1998) and Land Privatization Law (2002) legislated further decentralization and strengthening of the executive government at local levels by delegating key areas such as privatization, land administration, infrastructure, health, education and development planning to local authorities. The Taxation Law (1992) and the Budget Law (1992) regulate financial relationships and fund transfers between the central and local governments and within the levels of local government. According to a prominent lawyer, 56.6 percent of the total of 247

statutory laws in force by 2001, in some way or another are related with the powers and responsibilities of local governance.

In addition, the State Ikh Hural establishes the scale and scope for local governance in fulfilment of its constitutional powers to set up and abolish territorial and administrative units and determine their status and boundaries. The Government resolutions nos. 293, 24 and 64 regulate the personnel management system and organizational set up of central and local government administrations.

Appendix 1 summarizes major changes in the government objectives, structure, functions, operational and decision-making principles, and in the principles of forming the government at central and local levels according to the Constitution, Law on Government and Law on the Administrative and Territorial Units and Their Governance (LATU).

4.2.5 New Institutional Framework

According to the framework discussed above, Mongolia remained a unitary state with three layers of sub-national governments: 21 *aimags* (excluding Ulaanbaatar), 329 *soums*, 1573 *bags* in rural areas and 9 *duureg* and 117 *khoroos* in the capital city - Ulaanbaatar¹⁵.

The public sector comprises the central and local government, and state owned enterprises. There were about 3,400 local government entities, which include local government governors' offices, schools, kindergartens, hospitals, veterinary clinics, cultural centres, health centres, museums, libraries, and local enterprises. The Prime Minister is head of government, nominated by the president and confirmed by the SIH. He chooses a cabinet, subject to SIH approval. Dissolution of the government occurs upon the prime minister's resignation, simultaneous resignation of half the cabinet, or after an SIH vote for dissolution. In 1992 the Central government comprised 13 ministries, 6 general agencies, and 9 parliamentary bodies¹⁶.

¹⁵ as of January 2001.

¹⁶ the size of the central government continuously varied since then. For instance, in 1993 there were 16 ministries, in 1997 – 9 ministries and 53 agencies, in 2000 - 11 ministries and 47 agencies, in 2002 – 9 ministries and 41 agencies.

The local government structure was decentralized with the abolishment of People's Deputies' Hurals (Soviets) and their Executive Committees. In line with the principle of separation of powers, the local governance was to be shared between the *Hurals* of Citizen Representatives (Citizen's Hurals at the lowest level) and the local government led by a Governor.

The executive power is vested in Governors nominated by their Citizen Representatives Hurals. But the prime minister appoints the *aimag/city* governors. Governors of lower levels are nominated by their *hurals* and appointed by *aimag* governors for terms of four years. The local administration at the upper level consisted of the Governor, his deputy and the head of administration. There were many departments at the upper level including administration, economics and industry, food and agriculture, finance and taxation, population policy and labour, science and education, health, army and civil defence, environment, statistics, legal, monitoring and culture¹⁷. The *soum* office consisted of the finance department and officers. The resolution provided that the local administrations served the respective local *hurals*. At the lowest *bag* and *horoo* levels there are only a *bag/horoo* Governor and *bag/horoo* people's *hurals*.

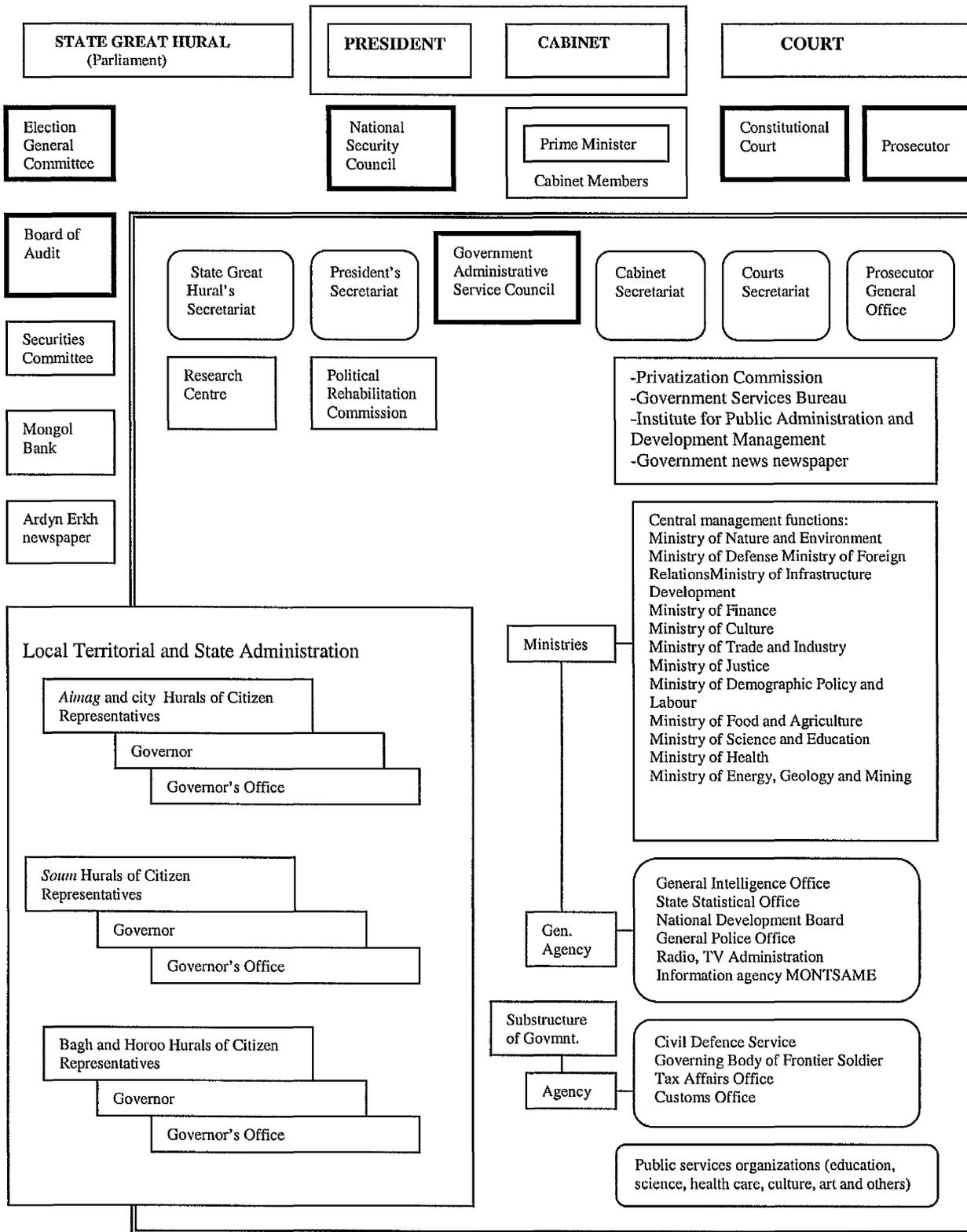
Self-government is vested in the *hurals* (assemblies) of the sub-national government entities, made up of elected representatives of local citizens for terms of four years. Local *hurals* are elected by the 21 *aimags* plus the capital, Ulaanbaatar. On the next sublevel, they are elected by provincial subdivisions and urban sub-districts in Ulaanbaatar and the municipalities Darhan and Erdenet. The size of the *hurals* is specified by law and depends on the size of the population. The largest Hural of Citizen Representatives of the capital city consisted of 40 representatives, whereas the smallest *hural* of citizen representatives of the *soum* with the population of less than 2,000 included 15 representatives. These important bodies are to ensure citizen representation in local governance, express the interests of local citizenry, develop and enforce common legislation and scrutinize local Governors. But the local self-governance was limited to administrative and financial self-governance only. This

¹⁷ Later, in 2000, the structure of the *aimag* administration was reorganized to include four major departments (state administration; economy and finance; industry, trade, agriculture, environment; and social development policy) and 21 agencies and other administrative entities. The Governor's Office personnel number was established within the range from 35 to 60 depending on the size of the territory, population, economy and industry as well as local climatic and geographical features.

is due to the Constitutional provision on the unitary status of the Mongolian state (Article 1.1). The clause that requires the compliance of the decisions made by local *hurals*/assemblies with laws of Mongolia, presidential decrees, resolutions of the central government and higher instance *hurals* limits their jurisdiction. The law on the Composition of Government (1992) established a system of government (executive) shown in Figure 4.1.

But many bylaws and regulations to govern intra and intergovernmental relations were yet to be developed. For instance, until June 1996 there was no legal basis to regulate the ministries. In practice, these relations remained under the jurisdiction of the individual ministries and their statutes, approved by the central government decrees. This is despite the fact that the 1993 Law on Government stipulated that 'the legal status of ministries and special agencies should be defined by law' (GOM 1993a). A provisional arrangement was made on 16 June 1994, when government resolution no. 111 approved 'Common Rules Pertaining to Ministries and Special Agencies' and 'General Functions of Ministries and Special Agencies'. The laws on the legal status of ministries and agencies, which defined the legal status, functions, activities, operational principles, organizational structure and management and their relations with other government structures were adopted only in 2003 after the adoption of the Public Sector Management and Finance Law in 2002.

Figure 4.1 State Structure, Dec. 1992



The government restructuring that took place during 1990-1993 thus aimed at an overhaul of the centralized institutional framework controlled by the MPRP and creation of a decentralized institutional framework for indirect macroeconomic management by the executive government. The strategies applied were: discontinuation of fundamentals of the old state administration, notably, party control and centralized planning of the economy; radical restructuring of the executive branch of the government and reduction in the size of the central government through reductions in the number of ministries in charge of sectorial development and the abolition of all state committees, commissions and other parastatals; downsizing; decentralization and privatization. Most importantly, conditions for the separation of politics and administration and establishing a neutral, professional civil service were put in place and the new institutions, essential for regulating a market economy were created, including the State Privatization Committee, Stock Exchange, Enterprise Management and Restructuring Centre, General Office of Taxation and Customs Department.

In terms of the government employment, the following changes occurred: (i) the size of the bureaucracy was reduced by 3,000 employees; (ii) An ambitious privatization programme¹⁸ transferred many functions, previously carried out by the state, to the private sector, except for running large enterprises in the utilities sector and the strategic copper mine owned jointly with Russia; (iii) Early retirement benefits combined with other structural reforms such as privatization and deregulation, liberalization of the labour market, have further reduced the total employment in the state sector; (iv) Declines in output and production during 1990 - 1993 triggered massive unemployment, which stood at about 45,000 within a year of reforms in mid-1991. Further sharp deterioration of the economy in 1991-1992 and redundancies linked with privatization relieved from the state sector an average of 6,000 people (registered) every month in 1992, compared to 2,000 in 1990 (World Bank 1992a).

Within two years of transition reform, the public sector employment was almost half of its 1990 level – a decrease from around 800,000 in 1990 to a remarkable 440,000 in 1992 which further reduced to 303,800 employees in 1994 (Fig. 6.1). During the same period government employment decreased by 15.4 percent from 182,600 to 154,100, and the core

¹⁸ At the beginning of 1990, 96.5 percent of all economic entities were in the public sector. In the first quarter of 1993, 94 percent of all economic units were classified as private sector entities (World Bank 1994b: 6).

government administrative service by 51 percent from 20,800 to 10,200 employees (Tables 6.1; 6.2).

The objective of creating a decentralized institutional framework had been largely accomplished by 1993 despite strong political opposition as these reforms were carried out against a background of fierce rivalry and competition between the old MPRP, on one side, and new democratic parties on another. Nevertheless, the success of political reforms was partly shed by the severe deterioration of the economy and loss in output, and with it, a massive outbreak of unemployment and, related to it, income poverty (see Section 4.4). These occurred against expectations by the reformers of rapid and successful completion of economic transition within two years. Both sides blamed each other for the failures on the economic front. The old conservatives blamed younger democrats for pursuing aggressive 'shock therapy' policies in a crisis situation caused by the collapse of the Comecon, whereas the latter blamed the old communists for too slow a pace of reforms and lack of enthusiasm. This mutual blame is apparent in a newspaper article written in late 1991 welcoming the new Constitution:

'Political revolution has its own psychology. This psychology requires a single decisive tactics, which accelerates rather than prolongs the ups and downs of the transition period. But this entails not the strategy of blowing off the 'fathers' by their 'sons' as doctor P. Nergui suggests but the one, which will destroy the bureaucratic and repressive system itself. This is a strategy of equipping the President and parliament from the very start with a Constitution, which will immediately cause the system to revamp' (Il Tovchoo 1991:20).

The process of structural and institutional change in the Mongolian public sector and its state machinery had continued throughout transition, reflecting changes in the nature and the role of the state. Sections below examine the economic and social contexts that shaped the progress of public management reforms.

4.3 Economic Reforms

4.3.1 Crisis of the Early 1990s

The transition to a market economy began in July 1990, immediately after the first multi-party elections and forming of a coalition government. Notably, Mongolian reforms preceded stabilization-cum-transformation¹⁹ reforms in countries of CEE and came before Russia had undertaken its reforms under Gaidar-Yeltsin. The reforms covered the entire spectrum of economic policies, including privatization, liberalization and institutional reforms to overhaul old and establish new institutions of the market economy. These initial steps were supported by the IMF stand-by credit arranged in August 1991 and, since 1993, by ESAF loans for low-income countries. We will start from developments in Mongolia's external environment, which not only allowed this transformation to happen in the first place, but also impacted upon the reform experience.

There is a common view, especially among donors, that the dissolution of CMEA, and with it the special trade and investment regime for member countries was the major contributing factor in deep recessions in transition economies, along with the legacy of the socialist economic system itself. Similar to other former members of CMEA, Mongolia faced a number of challenges in the wake of its market reforms. Within a year of the commencement of transition reforms, the country was subjected to several shocks including an aid shock, a trade shock, a macro-economic management shock and a 'shock therapy' itself.

Firstly, the collapse of the CMEA imposed a major trade shock on Mongolia, causing a steep fall in the value of total exports and imposing severe foreign exchange constraint on the economy. Imports and exports of goods and services fell by 75 percent and 56 percent, respectively, relative to their 1989 levels (World Bank 1992b). Reserves became negative as Mongolia turned to hard currency imports to supplement declining CMEA supplies. The terms of trade shock was compounded by the switch to hard currency trade, the arrangement established with the FSU in 1990.

¹⁹ The term is borrowed from Lavigne (1995).

Secondly, the decreasing amount of Soviet aid in the beginning of 1990 put enormous strains on the capital intensive and import-dependent Mongolian economy. Aid from the FSU reduced considerably in 1990 and then, in 1991, terminated. This loss of Soviet aid, which amounted to 30-35 percent of GNP annually, deprived Mongolia of virtually the entire public investment (45 percent of GDP).

Thirdly, sudden and rapid abolition of the institutions of central planning and control created a macroeconomic management shock. In addition, Mongolia had no 'cadre' capable of running a market economy so that a number of graduate students from Harvard taught courses in economic theory and trained individuals in banking and stock-broking. The government lost control of the macro-economy and created a financial emergency, and, in mid 1992, officially acknowledged the extreme food deficit. Rationing was introduced during 1991-1993 on most goods, including food items. The IMF, the World Bank, the ADB, the United States, Japan, South Korea and others delivered an emergency balance of payments aid and aid in commodities, food, spare parts and medicines. This emergency assistance was a critical component of the stabilization program.

Fourthly, the situation became more complicated in the face of the need to rapidly transform the economy with the inception of stabilization and adjustment packages that included rapid liberalization of most wages and prices, decollectivization of agricultural collectives, reduction in import restriction and, later, removal of all restrictions on international trade and flows of foreign and domestic capital, privatization, the establishment of a commercial banking system, easing of capital controls and the introduction of a floating exchange rate system.

The combined effect of these shocks was a fall in GDP by 2.1 percent in 1990, with a steeper drop occurring in 1991, estimated at over 16 percent (IMF 1991). The fall in output was compounded by rapid devaluation of the Tugrik, liberalization of prices and trade and an overhaul of the centralized supply and distribution system, which in aggregate brought the real wages down and fuelled imported inflation, which had then to be fought with still more restrictive policies. Lending to the private sector increased from 7.3 percent of total lending in 1992 to 45 percent in 1993 to mitigate the recessionary impact and secure a quick supply

response. The efforts to maintain consumption standards by increasing credit to domestic industries and unrestrained credit to the newly emerging private sector have resulted in substantial monetary growth and consequent rise in inflation. This expansion of credit in a hyperinflationary environment, when the net domestic bank credit rose by nearly 90 percent (World Bank 1992a), led to a rapid depletion of international reserves of newly established commercial banks. The end result of this excessive lending was a deep banking crisis.

Contraction of output compounded with enterprise streamlining and privatization created unemployment, previously unknown to Mongolia. The Ministry of Labour estimated urban unemployment at about 20 percent of the labour force by mid-1991. The overall situation in the economy was that of a steep contraction of public consumption ratio, a sharp drop in the investment rate by two-thirds, loss of a national income of 20 percent and decline in average income by a quarter as opposed to 1989²⁰ (ibid.). Inflation accelerated, peaking at 420 percent in January 1993, reflecting liberalization of official prices, exchange rates and relaxed monetary and credit policies. The economic context is well depicted by the member of the Sachs team which helped design privatization reforms: Mongolia experienced the most serious peacetime economic collapse any nation has faced during this century (Boone 1993).

Following Mongolia's membership of the IMF, the World Bank Group (WB) and the ADB in 1991, the official medium and long-term assistance from the FSU was partly offset by new flows of resources. The deficit on the external current account fell from 22.9 percent of GDP in 1991 to 8.1 percent in 1992. At the same time the external debt rose rapidly to about \$340 million at the end of 1992, added to the medium and long-term debt to the FSU of TR 10.6 billion²¹.

4.3.2 Structural Adjustment

From July 1990 to October 1991 the provisional government rapidly formulated a radical transformation programme with the help of foreign advisers. The programme consisted of tightened fiscal and monetary policies to attain macroeconomic stability.

²⁰ A UNDP estimate suggests that GNP per capita declined by 36 percent between 1989-1992 (UNDP 1993: Table 1, p. 3).

Structural reforms were introduced before stabilization policies and included liberalization of domestic and international trade, freeing domestic factor markets, privatization of public assets and improving private incentives to save and invest (GOM 1991). It was implied that these measures would reveal hidden distortions of decades of central planning and remove structural bottlenecks and imbalances for operations of a market economy.

Reform measures announced between January 1990 and July 1991 included a doubling of almost all prices, subsidy cuts, devaluation of the Tugrik, privatization measures including decollectivization of agricultural collectives, banking reforms and the creation of a two-tiered banking system, the elimination of all restrictions on private ownership of herds, fundamental legal reforms and change in the economic role of the state. The prices of petrol and other fuels were doubled and the prices of coal and electricity were increased by 75 percent and 94 percent, respectively. The financial instability, declining output, massive unemployment and deteriorating living conditions at the beginning of the economic transition (section 4.4.1), caught the government by surprise. Policy-makers were too optimistic and believed that privatization of state enterprises combined with the magic of the market would bring rapid if not instantaneous improvements.

Faced with this crisis, the progress of reforms after July 1991 was slower than initially planned according to the IMF-GOM Memorandum on Economic Reform and Medium Term Policies. The speed of reforms was reduced and administrative controls over the economy were increased. More importantly, the slowdown was caused by serious electoral competition that MPRP faced in the wake of the 1992 general elections. The majority of cabinet members felt that they had already implemented a credible reform package, and that new measures should be put in place gradually. They viewed further radical reforms as politically unfeasible.

One particularly important development in October 1991 was a clear sign that market economies and international organizations were prepared to support reforms. Pledges of foreign aid, including IMF and World Bank loans for \$150 million, equivalent to 15 percent of Mongolia's GDP, were made at the first donor meeting in May 1991 in Tokyo. Clearly, for

²¹ Russia cancelled this debt in December 2003.

the officials that figure sounded close to half of the previous Soviet aid flow. In late 1991 the government signed a one-year stand-by arrangement with the IMF²². The International Development Association (IDA) approved a \$30 million credit to finance critical imports for energy, mining, transport, agriculture and other key sectors.

Pressured by the collapse in 1991 and by the democratic opposition, the government deepened the reforms in the first quarter of 1992. The flow of external aid and loans was also conditional upon further reforms (USAID 1991). Starting in 1992 almost all prices were liberalized, except a few for which price ceilings were established. In 1992, civil service reform and staff reduction were initiated in the Ministries and an estimated 17-24,000 government employees were made redundant. Several tax reforms were introduced to improve revenue mobilization: the uniform 10 percent sales tax on all imports, manufacturers, and some services replaced the old turnover tax on SOEs, the progressive tax rate was introduced on company incomes and individual income tax was introduced for the first time. Excise taxes were introduced on petroleum, tobacco and spirits. Exports taxes were eliminated altogether and import duties were set at a uniform rate of 15 percent. A new privatization programme for 1993 was adopted.

In June 1993 a policy framework was agreed with the IMF and the World Bank. The same month, the IMF approved a \$57 million loan to Mongolia under the ESAF to support the government's economic program for 1993-1996. Since 1993 the transition reform has been supported by three subsequent ESAF loans (1993-1996, 1997-2000, 2001-2004).

4.3.2.1 Macroeconomic Stabilization

Under the ESAF arrangement, government priorities have shifted from micro-economic structural reforms of privatization and liberalization to macro-economic stabilization policies through tight fiscal and monetary policies²³. The stabilization policy is based on the conventional wisdom of the priority of price stability. According to this view, excessive

²² the program failed in 1992.

²³ agreement to stabilize the macroeconomic situation by both reducing government deficit and by limiting monetary finance

government expenditures fuelled by borrowing from the banking system lead to increases in the money supply with inflationary consequences. In addition, it was perceived that government bureaucracy has excessive claims on resources and tends to increase its expenditures and grow. Thus the stabilization and structural reforms should aim at the contraction of government by reducing its size and influence. Instead the 'sound macro-economic framework' that promotes a 'private sector-led growth' strategy needs to be established. The private sector ensures maximum efficiency, and, therefore, is the real vehicle for economic growth.

The stabilization of output has been regarded as secondary. Output losses were identified with the collapse of an inappropriate capacity designed to produce 'wrong' goods based on inputs rendered 'obsolete' by the disintegration of the CMEA. The results of output loss such as unemployment and poverty have been inevitable and necessary cost of the transition.

The government revenues as a share of GDP, which were as high as 50 percent in 1989, have declined steadily as a result of external trade contraction, earlier tax reforms and privatization and restructuring, reaching 30 percent by 1993 and 23 percent in 1996 (BOM 2000). Debt servicing further eroded government revenues. Reductions in government expenditures that accounted for 64 percent of GDP during 1985-1990 were seen as an immediate objective for macro-economic management. This was achieved by cuts in the expenditures in the budgetary current account. According to the stand-by programme, budget expenditures were expected to fall from 64 percent of GDP to below 50 percent during 1991-1995. Expenditure cutbacks were carried out in all categories of expenditure:

- Civil Service: Wage and salary bills were cut through continuous reductions in the size of the civil service. It was estimated that Government remained overstaffed by between 15 and 20 percent of its total size, or about 17,000 to 24,000 people, although the wage bill has more than halved as a share of GDP from 13.4 percent in 1990 to 4.7 percent in 1993 after the rationalization of Ministries under the UNDP managed Management Development Programme (MDP)²⁴. Salaries and wages in the public sector declined by almost 50 percent in real terms in 1992 and by over a further 20 percent in 1993 (World

²⁴ it was 6.9 percent in 1999

Bank 1994a). The strategies applied have been retrenchment, natural attrition, mergers of ministries and departments, efficiency improvements, and declines in real wages.

- Subsidies: Reduction of subsidies, especially for energy and transport, led to further rises in energy and transport tariffs. Subsidies (including transfers) have already been slashed by more than 21 percent of GDP in 1990 to 7.3 percent in 1993 and further cut by half in 1997. According to the World Bank (1994a), reduction of credit subsidies to state enterprises was the most difficult task of stabilization. Reduction and then abolition of subsidies contributed to closures and bankruptcies of SOEs, lowering domestic production and causing massive unemployment. This in turn cut prospects for future tax receipts.
- Social sector: Free and universal health and education were abolished and public expenditures on health and education rationalized (threefold reduction). Cost-recovery was introduced through the National Health Insurance Scheme and user charges were introduced for health and education provision. Stipends were abolished, food subsidies were lowered, the non-instructional staff was reduced, technical and specialized schools were converted into community colleges and tuition fees were introduced at post-secondary levels. The system of liabilities and entitlements in the social security sector was further lowered. Privatization of the entire social sector is planned from 2003.
- Public investment: the net public investment has decreased from 30 percent in 1989 to 12.7 percent in 1999 (BOM 2000). Consistent with the private sector-led growth strategy, public investment programs were drastically cut in areas crucial for the economy: manufacturing, agriculture, finance and trade sectors. Over 70 percent of the resources available for investment have been allocated to infrastructure (power rehabilitation, transport improvement and telecommunications). Previous investment levels in social infrastructure were curtailed, partially built infrastructure has been offered for sale to the private sector.
- Social security transfers were reduced and real pensions were lowered. Pension insurance was introduced in 1998 to ensure self-financing. Employees were entrusted with more social responsibilities.

As a result, social and cultural expenses, the largest category in the budget, were reduced from 44 percent in 1989 to 19 percent by 1999 (BOM 2000). Capital expenditures, which were 23.3 percent of total expenditures, were reduced to 12.7 percent in 1999 (ibid.). These

reforms of public finances substantially reduced the overall size of the government (as central government expenditures). Budget expenditures were as low as 52 percent in 1991, 22 percent in 1992 only to recover at 26.7 percent by 1999. Yet, the fiscal sustainability is still to be achieved, and hence, efficiency increasing measures had to become a priority issue in macro-economic management.

To mitigate the social costs of adjustment the strategy of alleviating the impact of structural adjustment program on the newly emerged poor was proposed. It had two elements: first, promote the productive use of the poor's most abundant asset – labour. The second element is to provide basic social services to the poor: primary health care, family planning services, nutrition, and primary education (World Bank 1994a).

The democratic government (1996-2000) pursued more ambitious reforms including banking, enterprise, fiscal and legal reforms and a radical privatization programme. Since many of the options for cutting the public expenditure had been exhausted by 1996, the new government made rapid strides toward reforming public financial management. In 1997, inspired by the New Zealand reforms, the government began a radical reorganization of government. The accounting and auditing framework for the new output based performance management and budgeting system has been initiated (Chapter 6). The value added tax was increased from 10 percent to 13 percent in 1998 to further rise to 15 percent in 2001 - a policy aimed at increasing the revenue base of the state budget to ensure fiscal balance. Decentralization was pursued to increase efficiency of the government (Chapters 5 and 6). But due to budgetary constraints the financial decentralization could not be adequately pursued. Rapid and excessive devolution and de-concentration of decision-making power, although increasing incentives for local governments to take prompt action to combat crises locally, did more harm than good by dispersing scarce resources as the local revenue base was too weak to finance new responsibilities. Under the PRSP/PRGF (see Box 4.1), the new Medium-Term Fiscal Framework was introduced in 2000 and a single consolidated treasury account for public entities was established at the MOFE. Nevertheless, the budget deficit and operational deficits were high despite the fact that only the most basic and essential services were being provided. The debt/GDP ratio has been continuously growing with 'little

immediate prospect of reducing this trend without growth in GDP and budget revenues, and drastic cuts in expenditure' (GOM 1996a:1.3.3).

Box 4.1 Key policy documents agreed internationally

1. **Interim Poverty Reduction Strategy Paper:** The Government has developed an interim Poverty Strategy Paper (I-PRSP) that takes stock of current policies and challenges facing the Government and outlines the main strategies to reduce poverty. The government's overall poverty reduction strategy rests on three pillars outlined in the I-PRSP: (i) macroeconomic stability; (ii) private sector-led growth, including through the promotion of export-oriented industries, and (iii) a more equitable distribution of benefits from economic growth through delivering improved services, especially to the poor, and maintaining a social safety net that ensures that the vulnerable remain protected from undue adverse side-effects of the transition to the market economy.
2. **Poverty Reduction and Growth Facility:** The main targets and policy framework of PRGF are consistent with the Interim Poverty Reduction Strategy Paper. The promotion and maintenance of fiscal sustainability will be critical to achieving economic growth targets for the medium term. Building on recent contractions in fiscal deficits from around 11 percent of GDP to the targeted 6 percent in 2002-2004, should lead to reductions in public debt from current levels of 66 percent of GDP in NPV terms to 60 percent of GDP in the medium term. The medium term will be a period of intensive *public management reforms, including civil service reforms*, and introduction of an efficient social safety net.
3. **Financial Sector Adjustment Credit:** The Financial Sector Adjustment Credit outlines the Government's medium-term financial sector development policy that is needed to reduce poverty through the promotion of macroeconomic stability and private sector-led growth. Within the framework of developing an efficient and a reliable financial sector, the medium-term strategy has the following core components: (a) promote financial infrastructure; (b) strengthen the banking system; (c) privatize state-share of the Trade and Development Bank; (d) develop an efficient credit monitoring network for financial system coordination; (e) improve the payment system in the regions; (f) promote a system for Government bond payments to be made within the agreed dates.

Source: GOM (2001e), Economic Development Report for 2001, p. 30

4.3.2.2. Structural Reforms

Structural reforms in the economy were carried out through liberalization of prices, liberalization and deregulation of factor, labour and capital markets and privatization.

Price Liberalization

Price liberalization was rapid. In July 1990 the government liberalized the retail prices of a selected 60 percent of products. Although followed by the doubling of wages and pensions, the most shocking event was the doubling of officially administered prices²⁵ in 1991. Further liberalization of prices occurred in 1992, when prices of coal, utilities for businesses, food and consumer goods and charges for public transport were increased. In September 1992 the list of administered prices was further reduced with the freeing of prices for flour, bread and electricity (with a ceiling) for consumers and public transport. By June 1993, prices for public transport, housing rent, heating and drinking and sewage water were liberalized in line with further devaluation of Tugrik. With these measures the last remnants of state intervention in domestic distribution ceased, although the prices of electricity, water, telecommunications, and housing continued to be subject to administrative control until the housing privatization in 1997. Liberalization of prices has created sound conditions for free and unrestrictive movement of capital within its domestic market.

Privatization

According to the USAID report (1992) privatization was a critical element of Mongolia's transition as a whole by creating a new class of owners with vested interests in seeing the reform succeed. Approach to privatization in Mongolia aimed to transfer ownership quickly to a newly emerged private sector which lacks wealth and 'is designed to be fair ex-ante but not ex-post' (World Bank 1992b:15). At the beginning of 1990, 96.5 percent of all economic entities were in the public sector with herders and cooperatives making up the rest (World Bank 1993).

Privatization began in October 1991, just three months after the formation of a coalition government. By mid 1991 nearly one third of state owned herds were in private hands and shops were auctioned off. The privatization of small and medium sized enterprises was extremely ambitious in terms of both number of enterprises and initial timetable. The voucher scheme was initiated before any country in the Eastern Europe. Already by 1992, production

²⁵ Initially prices of 120 products and services were administered by the state

by the private sector accounted for almost 60 percent of total output (NSO 1995). But the actual process of privatization took somewhat longer and continued beyond its timetable²⁶. In total, from 1991-1994, 4,500 entities were privatized through a voucher/mass privatization programme. The large privatization programme had begun to stall by the end of 1993, owing to the additional time required for asset valuation. More importantly, politically, privatization had become a highly sensitive issue as over time public distrust and discontents with the outcomes of previous privatizations had risen.

More radical privatization has been mounted since 1996 by the democratic coalition government. The total value of assets privatized between 1996-1998 was three times as much as the total value of assets privatized for the entire period 1990-1996 (ADB 2002). The privatization focused on the sale of small and medium sized state-owned enterprises and assets by auctions to private owners. By 2000, 90 percent of public houses were privatized free to current occupants (BOM 2000).

After 2000 the focus shifted to the privatization of the country's largest firms to foreign investors. It was implied that opening ownership of large privatized firms to external investors would bring needed capital, market access, managerial know-how, technological and product development improvements, operational efficiency, and customer- and service-oriented mentality to privatized companies. The experience of several failures in selling the 'Gobi' cashmere factory suggests that this process is not an easy one. The main issue, according to the Prime Minister, is difficulties of agreeing a mutually acceptable pricing. But he asserted that 'The goal is to find strategic investors, not just to privatize' (MN 2002a). The privatization process culminated in the adoption of the Land Privatization Law, which has been consistently blocked by the SIH since 1995.

By 2002 almost 70 percent of GDP was produced by the private sector. The common perception among policy makers and population alike is that despite the massive scale of privatization its benefits were somehow slow to accrue in terms of economic and wider societal gains. The Privatization Fund has not been transparent and figures for privatization

²⁶ therefore, the stand-by arrangement with IMF stalled

receipts have not been officially disclosed nor discussed. The job creation by the private sector was negligible. In addition, the process itself has been described as unfair and unjust.

Deregulation of Labour and Capital Markets

The country now enjoys free labour mobility. The new Constitution allows for free travel and location in any part of the country, whereas in the past domestic and international travel were heavily controlled. The wages in the private sector are set free from government control. A very low minimum wage is mandated. The government sets only the salaries and wages of civil servants.

Mongolia enjoys full financial liberalization and capital account convertibility as a result of financial sector reforms. By 1993 a transition from a monobank to a two-tier banking system was completed with fifteen commercial banks. The banking sector has seen a deep crisis throughout transition as a result of excessive credit policy to promote the private sector, loss of confidence in the banks due to the rapid devaluation and continuous depreciation of Tugrik, and the government borrowing in its desperate efforts to sustain current consumption. Poor credit control, lack of sound banking skills, and insider lending and fraud have been a persistent problem that added to the severity of the crisis (Nixson 2000). If in 1993 20 percent of banks' loans were non-performing, by the end of 1996 it stood at 50 percent to stabilize at 23 percent of loan outstanding (World Bank 1997b; BOM 2000). In 1996 three banks were declared insolvent. The government assumed the responsibility for servicing part of delinquent loans and for this purpose funds were allocated in the 1995, 1996 and 1997 budgets as well as the government bonds to replace the bad assets, which cost 5-10 percent of annual GDP. After repeated unsuccessful attempts at bank restructuring, entry by foreign banks has been chosen as a more plausible option to restore the banking crisis. In 2001 the Agricultural Bank was privatized under the management privatization contract (ADB TA). The SIH approved Bank Privatization Guidelines in July 1999.

Foreign Trade liberalization

The transformation from a predominantly barter-based system to a relatively open trade regime has not been easy. In early 1993 the state orders were abolished and most of the state-owned foreign trade companies were disbanded. Export and import licensing were abolished early in 1993 with exchange rate unification. Export taxes were eliminated and import duties were kept uniform at 15 percent until 1997. Trade flows have been drastically reversed. By 1992 the rate for the ex-CMEA partners had dropped by 54 percent of total imports. The most radical move was made in 1997, when the democratic government abolished all import tariffs (except for on alcohol) and more than fulfilled the requirements of the stalled Multilateral Agreement on Investment (MAI), which cost the budget about 2.5 percent of GDP. Mongolia joined the World Trade Organization in early 1997. The policy failure led to the re-introduction of the import tariffs from July 1, 1999 at a 5 percent uniform rate. The trade regime is, therefore, very much liberalized. But the narrow export base of Mongolia on copper exports makes the economy vulnerable to changes in international copper prices.

The liberalization of the capital account led to financial outflows from the country during transition, and especially since its liberalization in 1995. Persistent banking crises, high interest rates and a high percentage of non-performing loan portfolio is hardly able to attract depositors. BOM does not provide nor calculate the amount of capital flight. There are estimates though that in 1998 errors and omissions were -\$ 57.1 million, up from -\$32.1 millions in 1997 (Nixson 2000)

The exchange rate system had been liberalized gradually since 1990, and unified and liberalized in May 1993 by introducing a unified floating exchange rate. In May 1993 the national currency was devalued from Tug 40 to Tug 150 per US dollar. Since then the nominal exchange rate has continued to fall to reach Tug 1,200 per dollar by 2003.

4.3.3 ODA

Faced with the formidable task of transition the government sought international assistance from bilateral and multilateral donors. The serious challenge was lack of capacity not only to design policies but also to implement market reforms:

'...Although the need for radical reform was widely appreciated early on, there was not a widespread awareness of what radical reform actually meant, even within government. This limited the extent to which the actual reforms can be said to have been supported by a broad consensus, and almost surely contributed to inconsistencies between reform plans and their implementation' (World Bank 1992b:29).

In this light, the recent statement by the government itself that 'In many cases it put those reform measures into practice without full prior knowledge of their possible consequences on macroeconomic and microeconomic performance' sounds despicable (GOM 2001f:3).

A large number of multilateral and bilateral donors and other international organizations supported Mongolia's transition. On a per capita basis, Mongolia receives one of the highest levels of donor assistance in the world. From 1991 to 2001, ODA disbursements averaged \$214 million per year. Mongolia's external debt as of the end of 2001 stood at 82 percent of GDP, or Tg 931 billion (around US \$850 million). Most of this debt (97.4 percent) is concessional in the form of soft loans provided by donors.

Mongolia's principal donors are ADB, Japan, IMF and the World Bank, loans from which accounted for 92 percent of total receipts in 2000 (BOM 2000). The aid mostly financed the rehabilitation of infrastructure and technical assistance for training, institutional development, policy design, administrative support and project development (Box 4.2). Balance of payments support under the ESAF and policy loans by other donors was considerable over the transitional period. For instance, in 1998 the budget deficit reached 11.2 percent of GDP and 68.6 percent of it was financed by foreign loans. 90.8 percent of foreign loans were project loans and 9.2 percent were cash loans. In the following year 99.7 percent of the budget deficit of 8.4 percent of GDP was covered by foreign finance, of which 79.5 percent were project loans. In 2000 budget deficit of 6 percent of GDP was entirely financed by foreign borrowing (BOM 1998, 1999, 2000).

Such an extended lending has put substantial strains on the budget expenditures. It is now accepted that the country is becoming dependent on balance of payments aid. The current account deficit has consistently been over 12 percent of GDP and poses a serious problem given that foreign aid has been declining since 1995. A UNDP consultant wrote regarding Mongolia's aid dependence:

'One feature of the transition period that needs to be considered a fresh is the role of foreign aid. Mongolia is heavily aid dependent and we believe the country is in fact excessively aid dependent. The intent of donors no doubt is benevolent but the effects of aid have been pernicious. Donors have had far too much influence over economic and social policy, over which projects are undertaken and which are set aside, and over the entire transition strategy...Foreign aid has been a substitute for domestic savings, so much so that we believe net domestic savings are negative'.

Box 4.2 Summary of ODA to Mongolia

From 1990 through the end of 2001, donor commitments to Mongolia for all types of Official Development Assistance (ODA) amounted to US \$2.9 billion, while disbursements were equal to US \$2.4 billion. Of total disbursements, 52.7 percent has been as loans, 26 percent as capital grants, and 21.3 percent as technical assistance grants.

In terms of debt financing from 1990 through 2001, the main lenders have been Japan (US \$388.8 million), the Asian Development Bank (\$352.6 million), the World Bank (\$166.3 million) and Russia (\$84.9 million). The main sectors assisted have been Economic Services (88.2 percent); Social Services (4.4 percent); and IMF Balance of Payments support (7.4 percent). Within the predominant Economic Services category the main sub sectors of importance have been: Transport (25.4 percent); Industry and Construction (13.2 percent); and Electricity and Heating (11.7 percent).

In terms of grant financing disbursed, 1990 to 2001 the main sectors assisted have been: Economic Services (90.7 percent); and Social Infrastructure (9.3 percent). Within the predominant Economic Services category the main sub sectors of importance have been: Physical Infrastructure (26.8 percent); Economic Management (11.9 percent); and Agriculture (4.7 percent).

In terms of committed ODA grant assistance 1990 through 1998, the largest bilateral donors were Japan, the U.S., Germany, Denmark, the Netherlands, Taiwan and Australia.

Source: MOFE, Report to July 2002 Consultative Group Meeting

The situation summarised in Box 4.2 and Table 4.2 is such that Mongolia is the fifth most aid-dependent developing country in the world²⁷, as measured by the ratio of ODA to GDP. For the whole of the 1990s, the aid ratio was about 24 percent, whereas the average for low-income countries as a whole is only 1.3 percent (WDR 2000b). The meeting of the

Security Council held on 23 November 2002 concluded that the economic security of the country is under threat: external debt as a ratio of GDP was close to 60 percent in 1997 and at 89.9 percent in 2001, increasing by about 50 percent in just four years.

Table 4.2. ODA in Mongolia

Year	ODA as a percent of GDP	ODA per capita (US\$)
1991	20	45
1992	33	68
1993	36	93
1994	25	77
1995	18	99
1996	18	90
1997	25	113
1998	21	84
1999	24	81
2000	17	67

Source: Ministry of Finance and Economy

4.4 Socio-Economic Context

4.4.1 Economic Context

The donor community's view is that since the start of transition reforms, Mongolia had achieved commendable rates in economic growth along with reduction in inflation levels, privatization, and structural reforms in many areas (ADB 1999a, 2000a; World Bank 1999; IMF 2000; GOM 2001e). Mongolia even was described as 'the darling of ultra-liberals in the West' and 'the star pupil of liberal development economics' (The Economist, 3 July 1999, p. 34). Yet, the analysis of the following figures shows that the results are far from encouraging if not discouraging. The reform strategies in combination with other factors led to a soaring inflation, sharp fall in average incomes and increased poverty (Table 4.3).

²⁷ following Mozambique, Nicaragua, Malawi and Laos (World Bank, World Development Report 2000/2001. Table 21, p. 315).

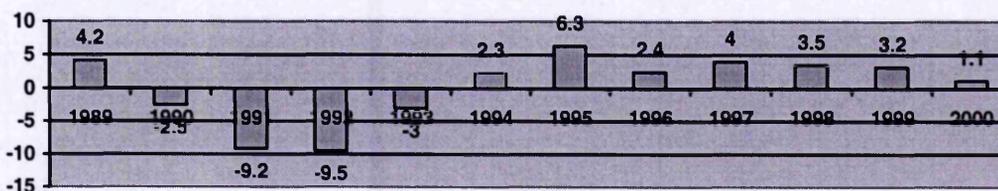
Table 4.3 Output, Inflation and Incomes, 1989-2000*

Year	GDP (1989=100)	Per capita income (US\$ at 1993 prices)	Rate of Inflation (percent change in the CPI)
1989	100	1643	0.0
1990	97.5	1245	0.0
1991	88.5	617	154.7
1992	80.1	478	325.5
1993	77.7	328	183.0
1994	79.5	334	66.3
1995	84.5	329	53.1
1996	86.5	445	44.6
1997	89.4	467	20.5
1998	92.5	426	6.0
1999	95.3	374	10.0
2000	96.3		8.1

Source: National Statistical Office

As we can see from Table 4.3, real output fell by around 22 percent between 1989 and 1993, and then averaging an annual growth rate of less than 3.5 percent over the next seven years²⁸. By the end of 2000, GDP was still nearly four percent lower than it had been more than a decade earlier. Considering the transition period as a whole, the growth rate was roughly zero, and this is despite growing private sector participation in the economy, with private sector accounting for 75 percent of the GDP in 2000 (Fig. 4.2).

Fig. 4.2 Real GDP Growth (annual percent changes)



Sources: Bank of Mongolia, National Statistics Office, IMF staff estimates

There was a substantial shift in the structure of GDP with increased share of the agricultural sector in GDP from 15.5 percent in 1989 to 36.1 percent in 1999, while the share of the industrial sector declined from 32.7 to 19.9 percent during the same period. The total

²⁸ this growth is mainly due to increase in the output of minerals (copper)

industrial output was still 27 percent lower in 1999 than in 1989 (NSO 2000). But the mining sector saw a rapid expansion, which alone accounts almost for the entire industrial output²⁹.

Per capita income has collapsed, declining precipitously during the transition period (Table 4.3). In 1999 per capita income still was 77 percent lower than it had been in 1989. The real wages remained fixed and GNP per capita declined by 34 percent (ADB 1993:3; UNDP 1993:15) despite steep rises in general consumer price index (by 321.1 percent in 1992). (Even these figures understate the explosive rise in prices, since the consumer price index for 1991 and 1992 included in several cases controlled prices rather than the higher free market prices since price liberalization in early 1991). For example, to compare prices of 1994 to those in 1991, the prices of food items increased 32.4 fold, clothes and shoes 17.6 fold, housing rent and utility prices rose 12.1 fold, transport and communication prices rose 30.4 fold, consumer items 36.8 fold, meat products 25 fold and bread 35 fold (Namsrai 1994). The CPI continued to grow throughout transition. Thus, only in 2000, prices for pure water increased 67.8 percent, heating prices increased 2.5 times, and prices for coal, fuel, and wood increased by 10.4 percent (BOM 2000). BOM reported that only in the first half of 2000 CPI increased by 17.4 percent. After a decade of sacrifice, the economic reforms had failed to produce improvements in the standard of living.

Many point to the successful containment of inflation after 1993, and bringing it down to as low as 10 percent by 2002. But this trend is, arguably, largely due to a fall in real purchasing power and resultant containment in demand rather than substantial increase in output or productivity, especially considering the sharp increase in unemployment. In addition, the inflationary pressures may still be there, contained only temporarily as a result of tight fiscal and monetary policies and external balance of payments support.

The most noticeable changes have occurred in the external trade relations. Trade liberalization policy resulted in the increase of trading partners. In 2000 Mongolia exported goods to 44 countries and imported goods from 61 countries compared to the socialist period when 90 percent of trade was with the FSU. But Mongolia's exports are commodity-based

²⁹ also alcohol production has been continuously rising

and investments remain concentrated³⁰ in the natural resource sectors. In 2000, 80 percent of total exports were to China and the USA alone (BOM 2000). The trade deficit is large - \$129.5 million or 13.4 percent of GDP as of 2000 (ibid.). Its main import items are equipment, machinery, consumer goods and even food items from China and main export items are minerals and raw cashmere to China. Trade liberalization directly affected domestic industries, which face unequal competition with foreign producers. This contributed to further decline of output and even the complete collapse of entire industries. But, despite the openness of trade, the overall volume of foreign trade is still half the level of trade in 1989 (Tserenchined 2000). As Nixon et al (2000:103) puts it '...the country's trade and external structure now resembles a low income, primary product dependant, less developed country, which is highly vulnerable to downturns and price changes over which it has no control'.

4.4.2 Social Context

In the previous section it was mentioned that the transition was painful, bringing about in economic terms an unprecedented fall in output, real incomes, rise in inflation and unemployment. How then has the transition impacted upon the lives of people in terms of living standards including health and education?

While political reforms guaranteed broad human rights, economic and social rights have suffered (UNDP 1994,1997a; Ginsburg and Ganzorig 1996; Griffin 1995). Rapid economic reforms had severe social consequences.

'Prior to 1990 Mongolia's social indicators were impressive relative to countries at similar levels of development. Despite the dispersed population settlements and limited communication networks exacerbated by adverse weather condition, the population had enjoyed universal coverage of primary education, primary health services, access to safe drinking water for humans and livestock, and state guaranteed employment and social assistance. However, after 1990, when Mongolia launched an austerity program and structural reforms to move forward to market economy and sustainable development, its social indicators plummeted, resulting in an 8.5 percent registered unemployment rate, 30 percent of school children not attending schools, a doubling of maternity mortality from 0.12 percent in 1990 to 0.24 percent in 1993, the number of female-headed households rapidly rising, and the real value of pensions and other social benefits declining. Mongolia's post 1990 poverty predicament is now unprecedented' (World Bank 1995b:2).

³⁰ exports of copper concentrate, gold and dehaired cashmere accounted for 54 percent of total exports in 2000 (BOM 2000)

The most serious outcome was the loss of employment and the loss of economic and social security (UNDP 1994, 1997a, 1999, 2000; SIDA 2002). A large 'informal sector' has developed in Ulaanbaatar, where it is estimated to support 30-40 percent of the population. Between 2000 and 2003, the size of this sector has grown from 11,000 to 179,000 people (Zuuni Medee 2003). The 1998 household survey recorded self-defined unemployment levels of 11.7 percent in rural areas and 30 percent in urban areas. In 2000, 24.7 percent of the economically active population was unemployed (NSO 2000). Alarming, only 9 percent of the unemployed had primary or no formal education, while 5.5 percent were university graduates, 24.2 percent had technical vocational education, 24.3 percent were skilled workers and 24.2 percent were secondary school leavers (complete). Majority of the large population of the young between 16-32, who make up one third of the population, are unemployed or indulge in petty trading. Jobless and restless youth present a major problem all over the country, as their despair often leads to heavy drinking, violence and damaged social relations. Government plans to open centres for compulsory alcohol treatment in every *aimag* (21) since the only such centre in Ulaanbaatar can no longer cope with the increasing number of inpatients.

The direct outcome of job losses was poverty, which now looms large, although its appropriate measurement continues to be debated. The incidence of poverty grew from 15 percent of the population in 1991³¹ to 36 percent in 1996 according to the World Bank's Living Standard Measurement Survey (LSMS) based on a weighted national poverty line of about \$17 per month. Particularly *aimag* and *soum* centre populations are much affected (World Bank 1995c). Serious poverty is found also among herding families, particularly in the Gobi area, but also in the remaining *aimags* out of the centre. A considerable spatial differentiation has been accompanied by huge social differentiation. The causes of poverty were attributed to: a) the severe fiscal contraction that has reduced the ability of the State to finance and sustain social programmes; b) the sizable lay-offs in the public sector; and c) the privatization of livestock, resulting in an unequal distribution of ownership (UNDP 1997b). The National Poverty Alleviation Programme (1995-2000) with the IDA credit of \$10 million aimed at reducing poverty to 10 percent in five years has failed to deliver on its objectives as the survey carried out by the GOM in 2000 revealed the level of poverty of 40 per percent.

According to Mr. Ch. Ulaan, Minister for Finance and Economics, only over the last three years the living standards have fallen by more than 40 percent, while numbers of the poor and extremely poor have doubled (Ulaan 2000). Since 2001 poverty reduction measures have continued under the less ambitious Sustainable Livelihoods Project with \$22.1 million more IDA credit. This time poverty is to be brought down to 14 percent over the next 12 years.

Public perceptions indicate high level of dissatisfaction (75 percent and above) with health, education and welfare services, which are increasingly becoming unaffordable for the many (1999 survey quoted in UNDP 1999). Between 1990 and 1995, government expenditures within the social sector have declined by 47 percent in real terms. Free universal health, education and welfare have become unaffordable and cost-recovery measures such as insurance schemes, user fees have been adopted, and private sector provision is encouraged. Between 1990-2000, real public expenditures on education were reduced threefold, from 17.6 percent of GDP to 5.5 percent in 1998 and onwards. Steep rises in energy prices, introduced in 1991, pushed up overhead costs to the level of salaries. Thus, in one *soum* heating and utility costs accounted for 60-70 percent of the budget and many *soums* were unable to pay teachers' salaries. In 1992-1993, the Ministry of Education closed 80 schools or 18.8 percent of 426 rural schools during the winter months in order to reduce overhead cost (World Bank 1995b). Enrolment declined dramatically, with an increase in dropout rates. In 1992 alone, 40,000 children 'dropped out' of school. In 1994, at least 25,000 children were out of pre-school, and 30 percent of school children were not in school. As a result, the literacy rate dropped from as high as 99 in 1990 to 78 percent in 1998 (NSO 1998; Begz 2001; MCS 2002;).

Real expenditure on health services fell almost fourfold over 1990-2000. During 1990-1993 maternal mortality rates doubled, and infant mortality rates remained high at 64-86 per 1,000 births in spite of a 20 percent reduction of birth rates. Low premium payments³² coupled with a reduced health budget are not enough to meet the cost of providing medical services. In 1999 the health insurance system covered only 50 percent of the sector funding (GOM 1999a). While Mongolia rated 70th among 170 countries of the world in 1990

³¹ The poverty line in late 1993 was estimated at Tg 3,200 (US\$8.00) per person per month for urban areas, and Tg 2,900 (US\$7.20) for rural areas (Source: Ministry of Population Policy and Labour).

³² Most population groups will not be able to afford increases in health insurance.

according to its human development index, now it rated only the 119th (HDR 1999). The Comprehensive Social Sector Privatization Programme, approved in 2002, seeks to privatize much of the health, education and other social infrastructure. For the poor and the very poor targeted safety nets are being introduced.

One of the consequences of the economic downturn was the rapid decrease in the population growth rates. Total fertility rate has fallen sharply from 4.6 percent in 1989 to 2.4 in 1997 (GOM 1999a). The annual population growth rate fell from 2.8 percent in 1969-1989 to 1.4 percent by 1997. There are only two countries in the world, whose population growth rates halved during the last decade - China with its population of over a billion, which pursues active population control policy and Mongolia, which claims to be adhering to active prenatal policies for its 2.4 million people. During 1970-1990 between 70-80 thousand children were born every year, whereas in 2001 the figure slumped down to 50,000 (*Unuudur*, March 20, 2002).

In terms of population settlement, gradual depopulation of several of the outer regions of Mongolia and the massive influx of herding families and their animals into the central province is causing serious concern. According to MONTSAME 35.5 percent of all the immigrants to Ulaanbaatar immigrated over the last five years (1998-2002). Of the 85,400 immigrants who came between 1995-2002, 39.5 percent immigrated in 1999 (MONTSAME 2002). Until recently the Ulaanbaatar city government imposed severe restrictions on settlement in the capital. Since their removal in September 2003 16,000 people moved into the city (*ibid*). As a result, Ulaanbaatar, which is only 0.3 percent of the Mongolian territory, accounts for 34.2 percent of the population, 55 percent of GDP, 55 percent of all economic entities, 83 percent of all domestic lending, 90 percent of savings, 68 percent of all trade outlets, 42 percent of hospital beds and 60 percent of doctors (*ibid.*). The brain drain is already a big issue for rural areas, as 51 percent of those who migrated are people with upper secondary and university education. It is clear that the rural population, including the Mongolian herders, are moving away from unemployment, poverty and deteriorating terms of trade in search of survival options and opportunities for their children. The geopolitical consequences of depopulation, however, can become even more acute. In an aggravated political conflict situation it may be hard to defend national sovereignty in the face of illegal

Chinese immigration when Mongolia cannot guard or even populate its huge hinterland territories.

Inequality and income disparity have grown over the last decade (the Gini coefficient rose to 0.396 in 2001 from 0.31 in 1996). The country saw a stark segregation of society into the rich and the poor and the emergence of new classes of owners. A wealthy political and commercial elite has risen out of the opportunities of political and economic change, while common state employees earn only approximately 30-50 US dollars per month and pensioners get half this amount. The social context is well depicted by the people themselves. The common responses to the question 'what is your major concern' were³³: 1) the split between the rich and the poor; 2) low salaries for government employees, especially health workers; 3) alcoholism; 4) introduction of fees for education; 5) unemployment even of the educated; 6) lack of cooperation between political parties, narrow group-interest and lack of regard to the interests of the country and its people; 7) poverty; 8) lack of true leadership; 9) schools and dormitories that have not been refurbished since 1990.

The present government put forward an ambitious goal in its Action Program to create an environment for human development, improve the living standards of citizens, ensure equal access to social services, and reduce unemployment and poverty (GOM 2000a). As the President put it: 'the current stage of reforms must be different than the reforms of the previous period in that it should re-adjust the new economic and social system to make it more humane and more productive. The outcome should be materialized in terms of human development and increased quality of life'³⁴.

4.5 Conclusion

Since 1990, after the collapse of the CMEA, Mongolia has been undergoing a process of transition to a capitalist economy, which entails rapid and simultaneous implementation of comprehensive political and economic reforms. The reform strategy applied was that of a

³³ weekly TV programme '60 seconds' in which people in the street are given 60 seconds to express their views on a given issue.

³⁴ Speech by the President at the opening of the spring session of the SIH in 5 April, 2002.

'shock-therapy' similar to the strategies adopted initially by CEE and the FSU³⁵. Due to its geographical isolation, underdeveloped economy and extreme dependency on the FSU Mongolia has experienced a shock, which was among the most severe ever recorded (Boone et al. 1997). Reforms have also been introduced with reference to political imperatives and at a rate, which far exceeded the capacity of an economy lacking basic market institutions to absorb them.

The transition reform followed a clear strategy that has been maintained regardless of the changes in the political system as a result of changes in voter preferences. Mongolia's key transition objectives have, so far, narrowly focused on adjustment and stabilization. Macroeconomic stabilization was regarded as a major precondition for economic growth. The private sector-led growth strategy was adopted based on the principle of a 'minimum state'. The main instruments applied for the achievement of these objectives have been the IMF ESAF/PRGF and, since 2000, the World Bank Economic Growth and Poverty Reduction Strategy initiatives.

The reforms also reduced the role of the state in the economy by reducing the government output through privatizations of state owned enterprises, government consumption and government expenditures. Government expenditure was cut so that by 1999 government expenditure was only 51 percent of the level of government expenditure in 1989. Re-orienting the role of the state as an enabler and facilitator of a market has been pursued. On the fiscal side, it was consistently advocated that lowering the wage and salary bill through reductions in the size of the civil service together with cuts in subsidies and transfers was the greatest potential for further efficiency gains on the budgetary current account.

Political transition was rapid, influenced by the same processes as in the CEE. Governance and political institutions of the socialist state have been dismantled, civil liberties were respected and the new governance framework for the liberal democracy has been largely laid out. The reforms have helped to boost the market forces and achieve some stabilization at the macro-level.

³⁵ albeit in an entirely different context (in terms of opportunities for trade, investment etc)

Despite the creation of the foundations of the market economy and visibility of stabilization, the aggregate growth rate throughout transition has been zero. Mongolia's economy needs to grow at a rate of 6 percent per annum for ten consecutive years to achieve its 1989 levels. Aggregate figures for investment and consumption are still below the level enjoyed in 1989. The structure of GDP has changed with an increased share of trade and services and decreased share of the industry and agriculture. The general tendency has been towards gradual de-industrialization and return back to rural subsistence. Trade and exchange liberalization policies made Mongolia one of the most open economies in the world. But the country is experiencing problems typical to a small economy. Its manufacturers find themselves squeezed between import-competition and rising product costs. As a result domestic output has fallen, leading to the closure of many remaining industries, which were unable to compete with Chinese producers who increasingly dominate in the domestic market. With the fall of industries, export sectors dominated by natural resources experience a boom and services keep pace. Mongolia is the fifth most indebted country in the world, highly dependent on foreign aid and credits from the IFIs, with debt servicing having reached 90 percent of Mongolia's GDP. The small foreign direct investment enjoyed by it is concentrated, primarily, in the mining and extractive sectors.

On the social development front persistently high levels of poverty, rampant unemployment and increased inequality are major characteristics of Mongolia. They, in turn, are causes of diminishing population growth rates, increased urbanization, outward migration, rise in crime and violence, social disruption and alcoholism. This economic development that economically and socially marginalises large segments of the population poses probably the most important threat to the remarkable achievements made by Mongolia in the development of an open, pluralistic and democratic society.

CHAPTER FIVE

PUBLIC ADMINISTRATION AND CIVIL SERVICE REFORM IN MONGOLIA

5.1 Introduction

Chapter 4 explored the overall strategy and nature of the transition process in Mongolia since 1990 and the context for public administrative reforms. It showed that political, economic and social reforms are all intertwined in that they are part of efforts to create a 'truly democratic society based on a market economy' (GOM 1991:1). We saw that these reforms were intended to transform the nature of the centralized Mongolian state and, at the same time, to reduce the size and the role of the state in polity and economy. The next two chapters analyse the major public administration and civil service reform.

Broadly speaking, three distinct phases with clearly defined objectives and strategies can be identified in the process of institutional development from the wider perspective employed by the research:

1. Creating a Decentralized Institutional Framework (1990-1993): This was a phase of political transformation, i.e the dismantling of the old centralized system and creation of a new decentralized political system and its institutional framework. During this period core institutions of socialist central planning were discarded and basic democratic political institutions were set up according to the new decentralized constitutional arrangements, and related bylaws were adopted. A horizontal political system was established for the first time with the separation of powers between the legislature, independent judiciary and the executive. Accordingly, the decentralized structure of the executive government was created with delegation of certain functions to local governments and local assemblies/parliaments (Chapter 4, Section 4.2).

2. **Public Administration and Civil Service Reform (1993-1997):** During this period the policy and legal framework for public administration and civil service reform was set up with the adoption of the Management Development Programme and the Government Administrative Service Law for the first time in Mongolia. Over 20 related bylaws were enacted that established the status of civil servants. These measures were implemented as part of the medium term economic and social policy framework under the first ESAF (1993-1996). With the assistance of the UNDP, the government produced the policy paper 'Mongolian State Policy on Reforming Government Processes and the General System of Structure' and obtained approval by the parliament in 1996. For the first time, the Policy Paper outlined a 'business strategy' of the Mongolian government (Appendix 3) and the structure of the executive branch in line with the 'needs of a democratic society and market economic relations' by separating policy from execution. Accordingly, the executive branch of government was further strengthened and an entirely new structure of government was created, which comprised a few core and several line ministries that assumed strategic planning, policy-making, programming, coordination, monitoring and evaluation functions. Law and standards enforcement functions and policy implementation function were to be assumed, respectively, by newly established regulatory and implementing agencies.
3. **New Public Management (1997-present):** From this period the focus shifted from structural reforms to reforms aimed at increasing the efficiency and effectiveness of public administration. For this, the capacity of governance institutions had to be increased through civil service training and development; comprehensive policies had to be adopted to increase governance efficiency (productivity) and effectiveness (quality and scope of services) through reforms in financial management, i.e. the budget management and expenditure control. These objectives were incorporated into the government overall policy framework, government action plans (1996, 2000) and their implementation strategies; and, more recently, into the governance component of the Good Governance for Human Security Programme (GGHS) adopted in 2001. They are being operationalized through fiscal and financial management reforms under the PRGF and the recently finalized Economic Growth and Poverty Reduction Strategy Paper (EGPRSP). The efficiency and effectiveness enhancing measures are, according to the Prime Minister, basically consistent with the 'post-bureaucratic paradigm' and are being

implemented through the enforcement of the Public Sector Management and Finance Act (PSMFA) adopted in June 2002. The nation-wide introduction of new principles of public management began in January 2003 after being piloted at several government ministries and agencies. It is expected that the reforms will produce not only efficiency gains but also improve performance of government entities and the quality and accessibility of public services (Enkhbayar 2002).

The following two chapters present the analysis of key transformations in the Mongolian state and its institutions in greater detail, focusing on the reforms in its executive branch. Specifically, the chapters examine the reforms in the Mongolian state administration and civil service with a primary focus on central government. For convenience, the analysis of the central NPM reform will be carried out separate for each phase identified above. Over the last two decades these 'most politically sensitive and difficult government reforms' (World Bank 2002b:15) have been implemented in many countries as a result of paradigmatic changes, i.e. the introduction of a new public management paradigm with the support and leadership of the Bretton Woods institutions. Mongolia has been implementing administrative reforms since the start of its transition. The rejection of communism and embrace of a market economy and liberal democratic notions of the state required a fundamental rethinking of the nature and role of the state, and with it a radical re-design of the institutions of governance. Successive governments in Mongolia tended to look to the North in search of reform models not only because they were enthused by technological advances, economic successes and the quality of life in the western hemisphere. More importantly, nationalism, which Ginsburg (1999:268) described as 'the pragmatic cosmopolitan nationalism, itself reflecting the ambivalence toward China that drove Mongols to look North in the first place', has always been a major factor to influence policy choices. In this search, the 'non-traditional post-bureaucratic model' was chosen as a dominant paradigm in the 20th century public administration, which has emerged because it has become clear that the 'traditional bureaucratic model leads the national bureaucracy to continuously expand and with it efficiency, sensibility and responsiveness to public need decreases' and, also 'the profoundly changed environment and the needs of a modern society themselves call for reforms'. (Enkhbayar 2002:5).

In this chapter, discussions of the reform experience first concentrate on the pressures and driving forces for reforms in the Mongolian public administration in the contexts introduced by the earlier chapters. Then, the reform implementation process is analysed focusing on the second phase of public management reforms (1993-1997) with emphasis on reform content, objectives, policies and strategies adopted, and its policy, legal and institutional frameworks. The final section provides a brief summary of reforms and key issues raised in the second phase of public administration and civil service reform.

5.2 Pressures for Reform

The political and economic transformations described in Chapter 4 prompted radical changes in the operational principles, functions, organizational structure, personnel policies and the overall legislative framework of the old state administration system. Complete social transformation and regime change called for 'next-generation reforms' - transformation of the Mongolian institutions of the executive branch of the government and its civil service in line with the principles defined in the new Constitution. As a World Development Report puts it, 'what distinguishes transition from reforms in other countries is the systemic change involved: reform must penetrate to the fundamental rules of the game, to the institutions that shape behaviour and guide organizations' (World Bank 1996a:1). In this sense, administrative and civil service reforms were an essential ingredient and a logical continuation of wider societal reforms. Further institutional reforms of the political system and state/public administration were necessary for successful completion of the transition to a market economy.

Firstly, as part of the shift from a 'party-centred' to a 'state-centred' political system, the practice of exerting political control by the ruling MPRP over the government and state central and local administrative organizations had to be discontinued. In general, the inclination was toward creating a politically neutral permanent civil service: 'As a result of the democratic political reform a new governance system emerged which enables top political leadership to be freely elected. As to the government administrative service, conditions were created for streamlining the new management system for public administrative civil servants who carry on their services independently from the outcomes of elections' (GOM 1996a:1.2.1). In the

future, to safeguard the middle and junior level civil service from the influence of politics, the principle of 'separation of politics and administration' practiced in developed liberal democratic states was crucial for the success of transition.

Secondly, in Mongolia, as a centrally planned socialist economy, the government role in the productive sectors was enormous. Therefore, consistent with on-going political reforms and a commitment to shifting to a market-based economic system, a 'whole-sale reinvention of government' by 'moving from doing many things badly to doing its core tasks well' was needed. This means 'government must at once shrink and change its nature. No longer the prime economic agent in most areas, it must instead facilitate private activity' (World Bank 1996a:110). The two key roles for the government in a market economy were: 'to reorient the government itself and the civil service to managing an economy indirectly instead of the old administrative means' and 'to focus resources on the social safety net' (World Bank 1992a: xii).

Thirdly, of particular relevance to public administration are public finance and budgetary reforms. Since transition, it became evident that the national expenditure pattern was not sustainable given the budget deficit running at about 20 percent of GDP in 1991 resultant from external 'shocks' and the reform costs. As Chapter 4 showed, strict money and credit (to the public sector) targets were adopted as part of Mongolia's stand-by program with the IMF in the early 1991³⁶ to reduce the overall deficit to 12 percent of GDP in 1992. In addition, successive ESAF/PRGF programs included targets for growth and inflation rates, budget deficit and current account balance to GDP among others. The targets were to be achieved by rationalizing public expenditures: the biggest expenditure items such as state subsidies for food, school dormitories as well as industrial and trade subsidies (which accounted for a quarter of public expenditures), social transfers, social sector expenditures, and the wage bill were drastically reduced or eliminated. Targets for the civil service wage bill were introduced along with other performance criteria and structural reforms such as privatization, liberalization, deregulation and decentralization that directly affected public administration and served as important structural benchmarks for adjustment credits.

³⁶ Strong stabilization programme and simultaneous structural reforms to limit the decline in GDP to 5 percent and, after a year of zero growth in 1993, to resume average growth of 3 percent annually thereafter.

In this situation, throughout transition the government resorted to drastic cuts in expenditures, particularly in the public wage bill, through government restructuring, civil service rationalization and redundancy measures, natural attrition and pension reform. A 1996 policy paper highlighted the need for rationalization:

There appears to be minimal potential for new sources of revenue, at least in the near term. Ministries and agencies are generally resource starved, the staff poorly paid and operating budgets are insufficient to carry out their functions. For addressing the foregoing problem, international financial institutions are recommending to impose strong control over programmes, costs, spending and operations. Otherwise, there may be difficulties in negotiating with donors and international agencies for loans and assistance (GOM 1996a:1.3.3).

Fourthly, a lack of in-country management capacity, a shortage of economic management skills appropriate for managing a market economy was a major concern for the government. The situation led to a 'macro-management shock' in the early years of transition and prompted the policy-makers to seek financial support and long-term advice from international organizations. Mongolia had no specialists with market economics, business administration, market management, marketing and other essential skills that the market economy needed. Its economists were trained in managing a planned economy and had no skills in banking, accounting, budgeting and financial auditing as practiced internationally. 'The management capacity development is crucial for successful transition to a market economy. The public and private sector capacity to serve successfully the needs of a market economy in a democracy has yet to be created. Mongolia will generate these capacities during its transition period' stated the senior governance advisor to the Mongolian government (Yanjmaa and Oquist 1995:10). 'Creating the national capacity in order to ensure success of its transition reforms and hence the prospects for the national development' was an urgent priority (GOM 1995a:25).

A consensus emerged that 'outmoded production and service infrastructure and inappropriate public management system compounded with lack of awareness and familiarity with the workings of the market economy among the population' were some of the greatest challenges faced by Mongolia (ibid.:25). The same concerns were shared by the donors, who stressed that lack of economic management skills, embryonic and fragile institutions and regulations to facilitate private sector development, and lack of infrastructure needed for

integration with the rest of the world were the main obstacles to economic growth and social improvement (ADB 1996; World Bank 1994a). At the policy level the situation was described as follows:

Even the most sophisticated Mongolians have little knowledge of democratic market processes and virtually no intuitive feel for the types of policies that are appropriate for a market environment. Hence the choice of issues is not driven by the current knowledge of the Mongolians: from this point of view, there is no area that can be ignored. Nor is the choice of issues derived from a standard recipe for upgrading the technical capacity of a policy-making elite. The transition from socialism is a very different process from reforming a market-oriented society (Murrel 1991:11).

Fifthly, government top executive officials lacked new management skills appropriate for a democratic political system, still resorting to old command administrative methods and control. There seemed to have been confusion and uncertainty among government officials about the role of the government, in general, and the role of the civil service in a market environment and its relationship with the newly emerged private sector, in particular:

There exists insufficient understanding of the market economy in general combined with insufficient comprehension of the role of government in a democratic, market economy. Some top officials of the executive branch of the government do not fully understand how and in which manner to perform in order to assume government functions to provide public services to the population and what is expected from them from the side of the people. The sole role of public administration and government service should be the fulfilment of the objectives and functions of the state (GOM 1996a:1.3.1).

Mongolians see only faintly and indistinctly the difference between the governmental role of regulation in the public interest and governmental direct involvement in operations and production...The distinction is becoming even more difficult to deal with as Mongolians perceive their standard of living decreasing, and decreasing abruptly, even as private enterprises and market economics are introduced. It is a classic case of confusing the cause and effect of simultaneously occurring phenomena. (USAID 1991:22)

In the process of overhauling the old administration system the new public ethos had to be created immediately: 'The existing style of operation is seen to result in an inadequate assumption of special state role and functions, considerable duplication and disbursement of efforts and resources' (GOM 1996a:1.3). Therefore, streamlining and introducing clarity on issues of the role, operational principles and functions of the executive branch became a particularly urgent task.

It is important to mention here that in contrast to other countries in transition in CEE and Asia (China, Vietnam and Laos), Mongolia's subsistent nomadic-pastoral and, later, 70 years of socialist legacy meant near absence of the history of market institutions and market relations. Therefore, while these countries in transition, could more easily restore capitalism or create it after a relatively short period of socialist planning, for Mongolia the markets as an institution had to be built from scratch: institutions of a market economy had to be created anew, new market values adopted, business mentality developed and new skills acquired.

Thus, the need for public administration and civil service reforms in Mongolia was dictated by the very logic of transition from centrally planned socialist to a capitalist market economy and the overall strategy of transition reform with central focus on macroeconomic stabilization and fiscal sustainability discussed earlier in Chapter 4. The following sections present the analysis of the strategy of and experience with public administration and civil service reforms in the Mongolian context.

5.3 Institutions in the Public Policy Process

Further on, we shall examine the process of transformation and institutional development of the executive branch of the government and evolution of the Mongolian public administration. In the process of a systemic change, with deepening of economic and political reforms, its size, structure, objectives, principles of operation and functions have been subject to profound changes. As a senior government official said '*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. The reinvention of the state with an accountable system of public administration is a central point of the reform*'³⁷.

But before coming to terms with major policy initiatives in reforming the old state administration, we shall briefly discuss the overall policy-making framework and decision-making channels that led an uneasy transition reform.

³⁷ B. Batbayar, Interview, 7 April 2002.

As in CEE, Mongolia's reform options were guided and formulated with the generous help of international organizations, who provided crucial expertise and financial back up when the country faced crisis. This section mainly deals with domestic, national institutions and agents that directed and implemented political and economic reforms.

Several features of the early policy-making process are worth mentioning here:

Firstly, the reform impetus and the drive for reforms were maintained vigorously by the new generation of politicians that emerged on the political arena in opposition to the MPRP. As mentioned above, in 1990 the MPRP was compelled to form a coalition government with the opposition³⁸. Moreover, in late 1990, the Prime Minister handed over the reins of overall reform management to a group of ambitious young economists. The interpretation provided in the Far Eastern Economic Review reads:

The vigour with which Mongolia's landscape is being transformed derives from a group of young, forceful economists, who occupy key positions in the new government..[and who] embrace the views of prominent Western economists such as Harvard's Jeffrey Sachs, who has helped to devise fast-track reforms in Eastern Europe. With the help of the IMF and the World Bank, they hope to establish a market economy in two years of what is certain to be a wrenching transition. (Far Eastern Economic Review 1991: 70).

Secondly, the executive branch of the government played a crucial role in managing the transition process. The resolution of the State Ih Hural of 4 January 1991 was instrumental in transferring governmental policy-making. By adopting it, the SIH unanimously handed over the task of reform to the Government³⁹. The aim was to consolidate decision-making in the hands of top political leaders in an anticipation of a severe deterioration in the fiscal situation as a result of the termination of Soviet aid, and, more importantly, due to forthcoming economic reforms such as devaluation, price liberalization and privatization scheduled for January 1991. The resolution authorised the government to exercise direct control over state enterprises and other public entities by establishing a state of emergency for up to six months and, if necessary, to act on its own discretion without observance of the common law. The government was entitled to restructure and reorganize state enterprises and other state entities, including decisions over appointments and dismissal of their management, to revise and alter pay and work conditions, to establish direct control over supply, procurement and sales of

³⁸ According to the commentators, the act was in violation of the law.

³⁹ Some pointed to the unconstitutional nature of such decision-making.

production inputs and outputs, to temporarily terminate the activities of political and non-governmental organizations in those enterprises and entities and to require full compliance with the state of emergency by strict disciplinary control and oversight of internal procedures. The outcome was that policy-making was effectively concentrated in the hands of a few top political leaders, who made decisions without due recourse to institutions of democratic decision-making such as elected representatives, or newly emerged non-government organizations and civil society. The resolution above is evidence that legislation had virtually no role in governing economic life, which was regulated by the unconstrained day-to-day decisions of the government⁴⁰. Indeed, government resolutions had the force of law. It is documented that despite the existence of legislative procedures many laws, especially in the beginning of the transition process, were passed through the parliament without hearings and public debate. Some laws, including privatization law⁴¹, were even adopted in violation of the country's Constitution (Murrel 1993:20, citing *The Independent* 1991). This could only be symptomatic of a society which is undertaking rapid and profound changes in an extremely unfavourable environment. The spontaneity of events during the early years of transition, a general lack of policy-formulation and implementation capacity in the government, and the severity of the economic crisis meant that the government had to make decisions and act immediately without prolonged policy debate and scrutiny. Also, a conscious decision was made early in the reform process to move fast and side-step the procedural and political constraints of parliament. With such credentials, the coalition government established an Economic Policy Committee headed by the Deputy Prime Minister, a leader of the opposition party. The Committee played a crucial role in paving the way for transition reforms supported by permanent advisers from the United Nations Development Programme (UNDP), United States Agency for International Development (USAID) and technical assistance from the IFIs and other international organizations, including international non-governmental organizations (INGOs).

Thirdly, in terms of the political elite, 'post-1990 domestic politics has been limited to a small group of people who knew each other and shared a common background, including formative experiences in the Soviet block' (Ginsburg 1999:268). Ginsburg (ibid.) presents an

⁴⁰ Enkhbaatar, "Why Don't Bills Act?", Mongol Messenger, October 14, 1991, p.2

⁴¹ The privatization law was adopted in May 1991 before the new Constitution of 1992 endorsed private ownership.

interesting study of the individuals who held cabinet positions in 1990-1998 governments as well as the Presidents, the Chairmen of the Supreme and Constitutional Courts, parliamentary leaders and heads of major parties. The list, consisting of the top fifty-five political elite, included not one woman. The 1992-1996 parliament had only three female members out of seventy six, and the government had no female Ministers. In 1989 women occupied 20 percent (86 seats) of the 430 seats in parliament. In 1997 women occupied only seven of 76 seats in parliament, and 9 of 373 governorships at the local government levels (ibid.). In 2000-2004 there were only four women in the legislature with even less governorship at the local level. Only five were born before 1940 and most were born in the 1940s (22) and 1950s (24) reflecting the transfer of power to a younger generation of politicians, 'a generation with less experience of nomadism' (Batbayar 1996:98). The coalition of new democratic parties that took office in 1996 was significantly younger than the MPRP group. The average age of the cabinet was 43, compared to the average age of 50 in the Jasrai cabinet. Thus, in policy-making, the old technocrats (*nomenclatura* described in Chapter 3) were virtually replaced by the new cohort of young intellectuals, who mainly came from the universities and research institutions. The intellectuals precipitated change and gave it direction through international contacts, while the technocratic elites implemented the changes in party and government organizations.

This last feature is most evident in the composition of the supreme legislature - State Great Hural. If, in pre-1990 Mongolia, it comprised equal numbers of technocrats, workers and herders, and only small minority of intellectuals (Chapter 3), the situation rapidly changed after transition. The Mongol Messenger (*MM* 1992) reported in June 1992, that 98 percent of the eighty-eight candidates for parliament in Ulaanbaatar were intellectuals, including lawyers, writers, university lecturers and economists, of which 45 percent were employed by government organizations and 10 percent by political party organizations. The above trend is consistent with the policy of creating a permanent *professional* legislature consisting at the core of legal specialists and economists, albeit largely technocratic in nature, and a near-complete elimination from the legislature of lesser qualified workers and herders. An unscientific selection of biographical data of members in 1996-2000 and 2000-2004 parliaments indicates roughly the same pattern but with an important distinction – a large representation of the newly emerged private sector.

5.4 Introducing New Public Ethos and Professional Civil Service: Depoliticization 1993-1996

5.4.1 Management Development Programme

There was a broad recognition among policy-makers of the need for a 'modern and democratic public management' in view of the differing role that the state assumed in a market economy⁴². Further reforms were needed to deepen the institutional transformation of the executive branch according to the new framework and introduce an entirely new type of government employment - a professional and neutral civil service immune to rapid swings in the political mood of the electorate.

In 1990, the UNDP sponsored several study tours to Italy, Sweden and United Kingdom for top officials headed by the Deputy Prime Minister. In 1991, it sponsored a seminar 'Restructuring Management and Economics in Mongolia' attended by potential donors. Democratization and openness dramatically increased the prospects for international cooperation. By 1993, different donors were willing to contribute to the transition process in Mongolia. Coordination of these donor funds suddenly has emerged as an issue. In 1993 the UNDP's one-year bridging project prepared the ground for launching the Management Development Programme (MDP), the first comprehensive programme aimed at 'advancing enhanced public and private management capacities in the context of a market economy in a democratic society' (GOM 1995a:25). Under the project the basic concepts were developed, the Programme management structure was devised and resource mobilization activities began. The UNDP's approach was to consolidate the available technical assistance and other resources under the MDP rather than to coordinate discrete and unrelated projects. The MDP thus brought under its scope all projects related to reforms of the public sector (Appendix 4). The main outcome of this bridging project was the formulation of the Strategic Policy Framework.

⁴² Ts. Yanjmaa, Interview, 23 May 2002

In December 1993, a government resolution officially endorsed the MDP and adopted its Policy Framework:

'Government shall decree as its own the Management Development Programme, which is being developed by the United Nations Development Programme and, which will be implemented in this country with the participation and technical assistance from donor countries and international organizations' (GOM 1993b: 17).

Further reforms in the Mongolian public administration were carried out according to the Strategic Policy Framework designed under the MDP (Box 5.1). The main objective of the MDP was 'to change the role of the state in consonant with the civil society. The state should only be responsible for the delivery of social programmes using the tax-payer's money. The state apparatus should not consume this money, it should serve the civil society by privatizing its own property and channel the privatization proceeds to social programmes⁴³'. Also, it is claimed that the programme had followed a new style of managing a state reform process. The design of the Strategic Policy Framework, Mid-term Programme Document and Action Plans followed a bottom-up approach. The Expert Groups first elaborated the policy documents and then they were submitted for discussion with the involvement of advisors and international consultants at specially convened Global Seminars before further policy approval by the GOM. But the findings and comments by the Expert Groups were consolidated and assessed by the foreign advisor to the Prime Minister.

The MDP was the leading programme for reform of the public sector. Five of its six components were concerned with reorienting the management approach of Government from a control mode to a strategic mode. Its management structure was setup at the highest executive level. The Prime Minister chaired the Steering Committee and his Deputy led the Working Group. The Steering Committee's deputy chairman was deputy Prime Minister. The Head of Cabinet Secretariat and head of its division were their secretaries, respectively. The membership of the Steering Committee comprised four Ministers. The membership of the Working group consisted of presidents and deputy chairmen of the Privatization Committee, the government Institute of Management Development, the Mongolian National University, Supreme Council of the Association of Mongolian Producer and Services Cooperatives,

⁴³ Ts. Yanjmaa, Interview, 23 May 2002.

Association of Owners of Private Enterprises, and the Mongolian Management Association (GOM 1995a).

Box 5.1 Strategic Policy Framework

Objectives

- to adapt public administration to the requirements of a market economy in a democratic society
- to create and consolidate a viable private sector
- programme support for the foregoing processes (policy; management, education, training, research, and consultancy; and information technology/systems development)

Strategy

A synergic approach which seeks to generate: a public administration reform that supports the development of the private sector; private sector development that produces economic and social conditions that facilitate the adaptation of the public sector to its new role; programme support that facilitates both the public sector reforms and private sector development; support from the public/private sectors, as well as the international donor community, for strengthening national management policy, education, and systems development capacities.

Scope (components of MDP)

Public Sector Reforms

- Public Administration and Civil Service Reform
- Decentralization and Local Administration Strengthening

Private Sector Development

- Privatization and Enterprise Restructuring
- Private Sector Development (Small and Medium-Sized Enterprise Promotion)
- Management Capacity Strengthening
- Management Development Institution Strengthening
- Management Development Policies and Support Systems Strengthening (capacity building of the office of the Prime Minister, monitoring and information management, accounting and auditing stems)

Source: GOM (1995a)

The Programme claimed that it would produce four key benefits:

- a reduction in the budgetary deficit and the cost of government at all levels;
- measurable and distinct improvements in the performance of government, effectiveness, efficiency and overall productivity;
- measurable improvements in the overall accountability of the public administration and civil servants;
- measurable improvements in the overall image and credibility of government, both internally and externally.

The programme design involved extensive comparative analysis of the international experiences with public management. Thus, in the public management area the Swedish

experience was regarded as the most 'progressive' due to its socialist orientation. Australian and New Zealand experiences were regarded as useful in terms of decentralization. The local government administration was studied based on the experiences of Philippines, Malaysia and Nepal. The experiences of the USA and Germany [Germany is, of course, a federal system] were also carefully analyzed, giving more weight to the latter because of its unitary status. Of special interest were the central-local relationships and the functions of local administrations. Much was also learned from their civil service legislation. Japan provided a good model for the government management information system. Russia, Poland and Hungary were looked at as models for antimonopoly legislation⁴⁴.

Appendix 2 provides a summary of the activities carried out under the MDP. What is notable though, is that on the ground activities focused mainly on developing management capacity of the executive government with the bulk of resources devoted to the training of government officials at central and local levels in the new concepts, principles and methods of public management in a market economy. Many top-executives were sent abroad for study tours and mid-career officials were sent overseas for long-term management training in Western universities.

In addition, the MDP was very much a 'collection of loosely connected TA projects' largely managed by the donors themselves, in which government had the passive role of a recipient of aid. The UNDP coordination was effective, however its main role was resource mobilization. It is a well-known fact that the greater the number of stakeholders, the stronger the centrifugal forces caused by narrow institutional interests and the more difficult it is to ensure effective coordination of dispersed projects and institutions. There were also issues of overlap and duplication of funds and programmes, besides problems in reaching policy and programme consistency.

Nevertheless, the MDP was the first comprehensive effort by the GOM and the donors to introduce modern public management in Mongolia: Firstly, it has established the policy and legal frameworks for Mongolian public administration in line with the needs of a market economy. The two important documents produced were the State Policy on Reforming

⁴⁴ Ts. Yanjmaa, Interview, 23 May 2002.

Government Processes and the General System of Governance and the Law on Government Service. Various regulatory legislation, and business strategy documents for key public institutions received technical and legal assistance from the Programme in the drafting process. Secondly, further public administration and civil service reforms were carried out according to the above framework. Specifically, the principle of separating politics and administration was introduced with the distinction between core and line ministries and creating independent regulatory and implementing agencies. Pre-conditions for introducing a merit system in the civil service were set up. Thirdly, it created and strengthened the key institutions involved in management development, including the State Audit Board (SAB), Government Administration Service Commission (GASC), Mongolian Business Development Agency (MBDA), Enterprise Management and Restructuring Centre (EMRC), State Property Commission (SPC), Consortium of Management Development Institutions (CMDI), and an Aid Coordination Unit in line with the increasing number of donor programmes. Fourthly, it developed the capacity for reform implementation through supply of equipment, publications, training activities, manuals and procedures. It supported the building of modern management skills and capacity to support the private sector by introducing for the first time western management concepts and principles. And finally, it consolidated the donor commitments to public and private sector strengthening and management capacity development and raised over US\$20 million for the Mongolian public sector reform.

But the MDP never really reached to the stage of fully implementing designed reforms. The Programme was terminated since the new democratic coalition government, created after the 1996 general elections, decided not to continue with the MDP. Interestingly though, the new government continued for a while with the implementation of the 'State Policy on Reforming Government Processes and the General System of Structure' due to the absence of its own reform strategy'⁴⁵. The main public administration reform project, except for its decentralization component, was moved from the Cabinet Secretariat to the Ministry of Finance and from UNDP to the Asian Development Bank for technical assistance and loan funding⁴⁶. Other projects under the components of the MDP were continued as separate small

⁴⁵ B. Batbayar, Interview, 7 April 2002.

⁴⁶ Ts. Yanjmaa, Interview, 23 May 2002.

bilateral donor TA projects under the newly designed UNDP Governance and Economic Transition Projects⁴⁷.

The sections below analyze the strategies and the process of implementation of the public administration and civil service reform component of the MDP focusing on central government.

5.4.2 Mongolian State Policy on Reforming Government Processes and the General System of Structure

Given the importance of the 'Mongolian State Policy on Reforming Government Processes and the General System of Structure'⁴⁸ (hereafter referred to as 'Policy Paper') we shall briefly analyze its main tenets and its implementation. The Policy Paper was based on the earlier MDP Policy Framework. Its purpose 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' (GOM 1996a: 96).

The Policy Paper determined the policy on reforming government processes and the government's priorities, mission, strategic and operating objectives. Thus, the mission of the GOM over the next 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'* (ibid:106). The strategic objectives were defined as: (1) strengthening the national leadership role of government and implement major operational improvements; (2) strengthen the government's executive management; (3) strengthen local self-governance and local administrations; (4) provide an enabling environment for the private sector; and, (5) manage public administration reform impacts and adjustment. The 20 operative objectives and 40 reform actions supported the strategic objectives and, in combination, they defined the GOM policy on reforms of government processes (Appendix 3).

⁴⁷ D. Tserendorj, Interview, 20 March 2002.

⁴⁸ SIH resolution no. 38 of May 1996.

The Policy Paper provided the detailed instructions on how to proceed with the reforms. It defined the guiding principles and scope of policy reforms, established the key features of the new management style, management values and management philosophy of the Mongolian government. It identified institutions to lead and implement the reforms along with methods and approaches of implementation and resources required, and even outlined phases for reforms.

For the first time, the Policy Paper⁴⁹ brought in a 'managerial revolution' to Mongolia by introducing into its administrative system a new management culture with its distinct vocabulary. The scope of the public administration reform was limited to the executive branch in line with its objective to strengthen the executive. The new management style was based on the principles of *delegation of authority, decentralization of decision-making, achievement of results, application of values and transparency and accountability*. The management values of this culture were: customer oriented services, 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 definition of policy directions, organization of policy implementation, accountability, resource management and executive management were identified as five basic government functions within a democratic, market-oriented environment. A 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 as policy implementation approaches.

The implementation of the Policy Framework was to be based on the following principles: economy of scale, effective leadership by the executive, effective ministerial management, rationalization, efficiency in service provision, bringing services closer to its users, effective local administration, effective administration of public enterprise sector, provision of general (unified) services and creation of an enabling environment for the development of the private sector.

⁴⁹ This section is based on the analysis of the Policy Paper.

5.4.3 Public Management Reforms

Although designed by the UNDP under the MPRP government, the Policy Paper was adopted almost unaltered by the new Democratic Coalition government. It confirmed its commitment to radical reforms in the public sector under the renewed ESAF arrangement agreed with the IMF in 1997. The structural reforms under the MDP launched by the previous conservative MPRP government were continued, but with an enhanced zeal.

The following policies measures and strategies were introduced as part of the implementation of the new policy:

Firstly, in support of the strategic objective (1), the functional division was introduced to separate policy from administration. The five distinct functions of the public sector were: environment protection, production, infrastructure, provision of social services and core government functions. Within each of these functions/sector the business of government was divided between 9 central and line ministries (3+6), which assumed strategic planning, policy formulation, regulatory and monitoring and evaluation functions. 23 Regulating agencies assumed law and standards enforcement functions, while 34 implementing agencies as well as budget entities were assigned policy implementation functions⁵⁰. The idea was largely drawn from the Swedish model, as SIDA was one of the most active participants in the MDP⁵¹. Also, the issue of government intervention in the operations of the SOEs was revised with demarcation and separation of policy, investment and management objectives.

Secondly, in support of the same strategy, the rationalization and restructuring of Ministries was carried out through abolishment and consolidation of certain ministries in line with the new role of the state (functions related to food, geology and mining, demographic and labour policies were dropped) (Tables 5.1 and 5.2). As a result, the number of Ministries was reduced from 13 to 9 and some 40 percent of the core civil service was made redundant. In

⁵⁰ The SIH Resolution no. 40 of 30 August 1996 approved 'The General Scheme of Public Administrative Entities and Their Structure'

⁵¹ Ts. Yanjmaa, Interview, 13 December 2002.

the meantime, the role of the Ministry of Finance was strengthened in support of the strategic objective (2). The two other strengthened ministries were Ministry for External Relations and Ministry of Justice.

Thirdly, in support of the strategic objective (2) and consistent with the new management style of delegation of power, the power of the executive government was strengthened relative to the role of the supreme legislature through 'delegation of power from the State Ih Hural to the Government (Prime Minister and Cabinet)...' (GOM 1996a: para 4.3.1), increasing the powers of the Prime Minister and the Cabinet in decision-making and strengthening their management support. For this purpose a business strategy for the Cabinet Secretariat was developed⁵², and the Cabinet Secretariat was re-organized to comprise five departments. Each of the departments formulated its own business strategy and defined its organizational structure. This was a turning point for the implementation of the new government business strategy. Amendments were introduced to the Law on Government to legislate the new competencies and functions of the Cabinet Secretariat. The role of the executive was further strengthened with the introduction anew of the positions of State Secretaries (equal to Permanent Secretaries or Administrative Vice-Ministers). The Law on the Government was amended to legislate that '*Ministries shall have State Secretaries. State Secretaries shall assume functions to organize and manage the operation of the ministry on a professional basis*' (GOM 1993a: Article 18.4)⁵³.

Fourthly, a competitive discipline was introduced anew through contracting of services (policy implementation functions were also assumed by wholly or partially state-owned economic entities, by the private sector or NGOs) and the creation of internal markets.

Fifthly, the implementation of the Policy Paper promoted further decentralizations of governance institutions by delegating authority from the legislature to the executive and down to the ministry and agency administration, and decentralizing the decision-making power to bring the 'services' closer to the 'users'.

⁵² The SIH Resolution no. 205 of 22 August 1996 approved 'The Business Strategy and the Programme for Reforming the Organizational Structure of the Cabinet Secretariat of the Government'.

⁵³ The legal status of ministries remained undefined as the democratic coalition government was in the process of formulating a new strategy for PA reforms along the New Zealand model. The draft Law on the Status of Ministries was approved only in 2003 although it has been pending in SIH since 1996.

The new management philosophy thus greatly increased the decision making power and influence of the executive branch of the government in the Mongolian polity, specifically the role of the Prime Minister, relative to the roles of other representative governance institutions, including the supreme legislature. This has been especially evident in the SIH after the 2000 elections, when the ability of the legislature to make independent decisions has been questioned on numerous occasions. The speaker of the SIH publicly denied claims of 'the SIH having fallen under the management of the GOM' (*Channel 25* 2002). Also, consistent with the overall framework, the new management philosophy further reduced the policy implementation, regulatory and service provision role of government by delegating policy implementation and regulatory functions to quasi-independent agencies, and service provision functions of the public sector to the private and NGO sectors. Crucially, for the first time the reforms introduced a contract culture into the Mongolian public administrative system and the private sector alike.

Table 5.1. The Structure of the Government

Ministries of Mongolia	
Before July, 1996	After July, 1996
1. Ministry of Environment	Central management function ministries (core ministries): 1. Ministry of Finance 2. Ministry of External Relations 3. Ministry of Justice Line ministries: 4. Ministry of Nature and Environment 5. Ministry of Defence 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
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 Labour	
11. Ministry of Food and Agriculture	
12. Ministry of Science and Education	
13. Ministry of Health	

Table 5.2 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's Minister's competence	2	1
Within the sphere of Defence Minister's competence	2	2
Within the sphere of Education 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

Therefore, reorganizations at the central level focused on rationalization and downsizing of ministries and creation of new structures to reflect the changing role of the state in Mongolia's transition to a free market economy – from direct action to the provision of an enabling framework in which the private sector can operate. Accordingly, in line with the 'minimalist' perception of the role of government in the MDP, these structural reforms also needed to produce efficiency gains. Ministry rationalization, downsizing and civil service reforms components were allegedly to bring about budget savings totalling to Tg 19.1 billion in three years through rationalization of expenditures and cuts in government employment of 16,187 people in three years. Privatization of state property at the rate of 10 percent a year would generate Tg 15 million in 1996-1997. It was estimated that, as a result of these policies, the rate of current account balance to GNP would improve by 0.3 percentage points and the budget deficit would decrease by 0.6 points in the first year and by 1.1 points and 1.2 points accordingly by the end of the third year (GOM 1995b:52).

Additional cost-saving measures introduced as part of public administration and civil service reforms were a shift from six to five working days per week and the creation of

common services. Since 1990 many ministries had indulged in stock rearing, small holding, and other small ventures, including sales of excess assets, renting of premises and equipment to the newly emerged private sector and even cattle breeding and vegetable growing, which allowed them to subsidize their wage and other expenses. Most budget entities, enterprises and even schools and kindergartens rented part of their premises to private companies⁵⁴. Ever increasing budget pressures led the Government to introduce user charges, for example for boarding school provision and nursery school education. Some structural innovations were introduced in the executive government to achieve greater cost-savings – the so-called system of government common services⁵⁵. According to this arrangement, all ministries were premised into the same buildings or venues located close to each other. Their property was transferred to the Government Services and Logistics Department. Parking of vehicles and centralized current budgets were introduced immediately⁵⁶. These measures were not difficult to implement since Ministry budgets consist of a few items including the payroll, the insurance contributions by the government for their employees, heating, electricity, transport, communication, stationary costs and internal and external travel and accommodation costs (ibid).

The next step of reforms was the development of business plans and internal reorganization of the ministries. For this purpose, project teams of 5-9 people were set up at the ministries led by the State Secretaries and Ministers acting as advisers. In the Cabinet Secretariat itself the central project team was set up to support the project teams at the ministries⁵⁷. The idea was that *'once the ministries were clear with their businesses, they would be able to determine their missions, strategic objectives, goals and roles, they would perform better'* (ibid.). But three ministries, the Ministry of Finance, the Ministry of External Relations and the Ministry of Infrastructure Development, did not accept the restructuring plan proposed by the project team and wished to retain their existing structure, arguing that the new structure was not appropriate for the specific role and functions of their ministries⁵⁸. The

⁵⁴ Parents criticized the Ministry of Education for creating unsanitary conditions in pre-schools.

⁵⁵ The common services were subsequently closed down in 1997 as re-centralization of resources created inefficiencies and bottlenecks as a result of long queues for scarce services and equipment, difficulties of administration and management

⁵⁶ Ts. Yanjmaa, Interview, 13 December 2002.

⁵⁷ Sh. Solongo, Interview, 7 November 2002

⁵⁸ B. Batbayar, Interview, 7 April 2002.

internal reorganization of the Ministry of Finance was carried out in 1996 with the assistance from the USAID Economic Support Project.

But there were slight changes from the original plan in the way the new government carried out the ministry restructuring. For instance, it did not create the Ministry of Economy responsible for economic policy-making and even abolished the National Development Board, transferring its functions to the Ministry of Finance and the Ministry of External Relations. It has also abolished the position of a vice-minister, stipulated in the Law on Government Service and, instead, as we saw, introduced State Secretaries in the ministries. The composition of ministries of central management functions was also altered against the initial proposal. In addition, the ministry restructuring was carried out without prior piloting and experimentation, as suggested by the Policy Paper: 'reforms must start with the well designed piloting and, based on its results, to initiate further scaling up' (GOM 1996a: 4.12.7).

Chapter 7 presents the more detailed analysis of implementation and the effects of the ministry restructuring exercise, based on the case study of the Ministry of Science, Technology, Education and Culture (MOSTEC).

5.4.4 Civil Service reforms

The number of donors willing to support this component was large (Appendix 4). The civil service reform was a sub-component of Public Administration and Civil Service reform component of the MDP, which culminated in the production of the draft Law on Government Administrative Service in 1994 and its subsequent approval by the SIH in 30 December 1994. The Government Administrative Service Council (GASC) was created on 3 July 1995. The MDP also assisted in the formulation of policies and the design of systems for the new civil service, including policy, entrance examinations, performance evaluation, and job classification. A number of other laws and regulations were revised in line with the provisions of the new law. SIDA supported the national project team in the production of the Personnel

Management Handbook and was also heavily involved in the design of the legislative framework for the new government service⁵⁹.

The Law on Government Administrative Service went into effect from 1 June 1995. Legally, recruitment is based on qualification only rather than social/class origin, and promotion, permanence and incentives should be merit and performance based (GOM 1994b). Entrance examinations and result oriented performance appraisals would play an important role. The newly created GASC was responsible for developing the government human resource management policy, organizing entrance examinations, maintaining the reserve army of government administrative employees and keeping the government employment statistics up to date. The Sub-Councils were established in the ministries, agencies and local administrations.

For the first time the law introduced the notion of 'government service' in the Mongolian public administration, defined as 'the activity of accomplishing and implementing the State goals and functions within the vested power, as set out in the Constitution of Mongolia and other legislation' (Article 1). The key principles that guide government service and that are of importance in adjusting the government service to the needs of the market economy are 'transparency', 'service to the people', 'responsibility of the state for any damage incurred as a result of the wrongful action by a government official in the course of exercising the powers provided by law', among others. Any citizen of Mongolia, who has 'appropriate capabilities and skills, education, qualification and experience', can enter the government administrative service (Article 10.1). The government service was classified into political, administrative, special services and support services. The categories were governing, executive and supporting posts. But it should be noted that the Law on Government Service was designed mainly to regulate the legal status of government employees holding political or special services posts and administrative employees. The legal status of government support service employees such as teachers and doctors was to be regulated mainly by the Labour Law, partly by the Government Service Law, and by other regulations. The Law has introduced a sophisticated ranking and grading system for each post classification and

⁵⁹ Gantumur, Interview, 23 July 2002.

category. Decisions on salary and other remuneration are also based on the classification system.

The Law guaranteed exclusive benefits to government employees, including provision of free housing, official cars or public transport allowances, free training, provision of university or vocational school tuition fees for one child per family, low interest loans and collateral for building houses and purchase of other necessities (Article 27). A special hospital was allocated for core government administrative employees and their families, and the state would meet up to 60 percent of the costs of their overseas treatment. The law also stipulated for the protection of government employees from dismissal as a result of restructuring or redundancy measures by assigning them to another posts or paid retraining (Article 27). In turn, the government employees had several restrictions on the exercise of certain political and civil rights, of which the most prominent ones were to 'participate in the activities of political parties, voluntary and religious organizations in connection with matters in no direct relation to their duties' (Article 15.1) and to 'plan, organize or participate in strikes and other activities, which jeopardize the normal functioning of government organizations' (Article 15.2). As an anti-corruption measure, they were prohibited to 'receive gifts, monetary remuneration, rewards, loans, free or discounted services or other illegal treatment from organizations, economic entities or individuals for performing their official duties' (Article 15.6). Thus, for the first time, the Law on Government Service provided for the creation of 'an impartial and efficient' government service with comprehensive benefits.

The working group which worked on the draft Law, had studied numerous foreign legislations on the civil service including those of Sweden, Japan, Germany, France, Singapore, Malaysia, Philippines, the USA, the UK and others. Study tours and visits were organized to several of them. There are claims that much of the civil service reform is strongly influenced by the experience of Sweden. The very notion of 'government service' has been learned from Sweden⁶⁰.

⁶⁰ Sh. Solongo, Interview, 25 November 2002.

5.4.5 Human Resource Development

As early as in 1990, several visits to industrialized countries were organized, headed by the Deputy Prime Minister Da. Ganbold. Notable among them was the visit to Sweden. Recognizing the importance of introducing the key concepts of modern public administration, the delegation requested the aid agency Board for International Technical Cooperation⁶¹ (BITS) to deliver a series of seminars on critical aspects of public administration. These first seminars were held during the autumn of 1991. The project continued through 1992 and 1993 with, however, an emphasis on institutional development of IAMD through training of trainers and project managers (SIDA 1996). The project was instrumental in introducing Western management concepts to IAMD. Training sessions were held on project management, personnel management development, personnel methods and techniques, local government and self-government and local government finance. Of special interest to Mongolian trainees was a completely new notion of project management⁶². In addition, a series of study tours were included.

Management training and institution development were important components of the MDP. Given the absence of management training in the past, as practiced internationally, there was a need to introduce new management concepts and practices both at macro and micro levels. Several projects aimed at building the capacity of government officials and the strengthening of IAMD as a new management training machinery. Under the 'Civil Service Training and Consultancy' project, carried out jointly with the Swedish Institute for Public Administration (SIPU) in 1993-1996, over 300 government officials were trained in change management and modern management techniques. The project aimed at 'expanding the management capacity necessary to undertake the public administration and civil service reforms' (SIPU 1996:5). Other bilateral organizations, such as AUSAID, ODA UK, GTZ, EU TACIS, and Japan also provided external technical assistance. The key training needs identified were training in western management techniques, free market economics, marketing, and the experiences of other countries undergoing the transition⁶³. The activities included curricular and pedagogical reform, faculty retraining, provision of textbooks and

⁶¹ Nowadays, Swedish International Development and Co-operation Agency (SIDA).

⁶² B. Enkhbat, Interview, 4 March 2002.

⁶³ Coopers&Lybrand (1993).

computer resources on economics, management and English language training, overseas fellowships, training and study tours to expose faculty members to market economics and modern management techniques. Overall, more than 400 people benefited from this training⁶⁴.

The MDP assisted in organizing a Consortium of Mongolian Management Development Institutions (CMMDI) comprising seven public administration and management schools. But the major achievement of the project was the establishment of Master's Degree Programmes in Public Administration and Business Management at IAMD and the strengthening of IAMD as a prime management training institution for Mongolian public and private sector managers. Since 1997 the IAMD's status has changed from a non-profit to a for-profit management training institution which is also a government executive agency. During 1996-2001 the Academy trained a total of 10,337 managers, of which roughly 2,000 were graduates in public administration. It was evident that the Academy staff was actively involved in various long and short-term training programmes and study tours in the field of public administration: 22 teachers were trained in Germany, 14 in Australia, 12 in Sweden and others in India, Japan, the UK, the USA, Thailand, Italy, New Zealand and other countries. Some received their Master's Degrees in Australia and Germany.

According to the Deputy Director of the Academy of Management, the consultancy and research activities were particularly intensive during the MDP. Major fields of research were national economic policy, national security, policy analysis and management although the list of completed research was not impressive. Continuous efforts by the MDP and various bilateral projects to strengthen the IAMD as a major research facility on public administration in Mongolia were, seemingly, far from successful. The scope of research at the Academy has been very limited except for occasional ad hoc consultancies mostly for international organizations. 'The government policy-making does not involve policy analysis. Perhaps, they don't have time for this' said Sh. Batsukh, Deputy Director. The focus on public administration and new public management in the Mongolian context was rather modest except for a few articles discussing the theory of NPM. The main problem that the Academy faces is the shortage of teaching staff, especially in economics and core management subjects:

⁶⁴ Sh. Batsukh, Interview, 8 April 2002.

*'For some time quite many were sent to Australia for management training. But most are gone by now because of the low wages, and are working mostly in international organizations, operating in Mongolia'*⁶⁵.

In 1999 the new Government adopted the Strategy and Policy for Human Resources Development of Government Administrative Employees under the SIPU project. For the first time, the Programme introduced modern concepts of human resource management and organization development in Mongolia by defining the vision, policy and strategy for government HRD. The vision of the future Mongolian public administration was formulated as 'to create an effective public administration with capable civil service, to ensure that every administrative organization is a learning organization and to provide for the leadership and participation of civil servants' (GOM 1999b:149). Its main principles were democracy building, meeting the needs of the market economy, efficiency, effectiveness, transparency, accountability, equal opportunities and responsibility. The objectives were to create a civil service capable of implementing government policies and providing an efficient and effective service to the public. The three main skills that civil servants needed were professional, social and business skills. The decentralized strategy of HRD was adopted based on the principles of 'learning organizations'. For this, every government entity was responsible for developing and implementing their own HRD policies based on the training needs of the organization itself and its employees (para. 3.8.3). The forms of training included staff development training, and training programmes leading to qualifications, as well Bachelors, Masters and PhD degree courses.

5.5 Summary

Public administration and civil service reforms carried out in 1993-1997 were the first comprehensive efforts at reforming the executive branch of the Mongolian government in line with the needs of a free-market economy and democratic governance. As a result, further decentralization of institutions of the central government was carried out with the clarification of government functions, modern concepts of management were introduced anew, and a legal

⁶⁵ Sh. Batsukh, Interview, 8 April 2002.

framework for a professional merit-based civil service was established. By 1997, the size of the public sector dropped from 51.9 percent of GDP in 1990 to 34.5 percent (Appendix 5). Between 1994 and 1997 the government employment was further reduced by 16 percent from 153,312 to 128,926, of which the government core administrative service was further reduced by 37 percent from 11,600 to 7,300 employees (Table 6.2).

The Policy Paper was highly recognized not only by Mongolian politicians but also by the UNDP, IMF, World Bank and New Zealand as 'a first and quite comprehensive guideline for public administration reform'⁶⁶. 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' (IMF as quoted in Batbayar 1999:25). According to Dr. Graham Scott, former Treasury Secretary in New Zealand, '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's assessment was: '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 a centrepiece of the programme, as the bridge between a diffused vision of what is required from the state under the new economic and political circumstances, and a blueprint for actual implementation stage' (UNDP 1996: 45).

But there have been fairly strong criticisms of the programme on several grounds. In general, the presence of large numbers of multilateral and bilateral donors in Mongolia, especially during 1990-1997, raised issues of effective coordination of foreign aid as well as the absorptive capacity of the country to utilize resources. Some donors commented on high absorptive capacity as the 'general level of education in Mongolia is relatively high' (SIDA 1996:16). However, according to figures from the Tokyo donor meeting, only 60 percent of amounts committed for the period 1991-1995 were disbursed (ibid.). A duplication of donor efforts, which led to ineffective use of scarce resources, was a major issue for the government. Coupled with weak negotiating skills of government officials, the strategy led to a situation,

⁶⁶ B. Batbayar, Interview, 7 April 2002.

where international cooperation arrangements were not optimally suited to Mongolia's needs and long-term development strategy⁶⁷.

As we saw, despite all the claims, the MDP was largely driven by the UNDP and the Policy Paper itself was drafted by the governance adviser to the Prime Minister, with minimal participation of national specialists in formulating the policies and strategies. The government's voice in asserting its needs and articulating its developmental goals has remained weak: *'The national policy makers instead of lazily accepting the blueprint strategies, should focus more on formulating and adopting home grown strategies and have more confidence in themselves'*⁶⁸. As a result, issues of less importance for the GOM and the country become illusory priorities. The UNDP (1996) evaluation mission itself pointed out that the Programme comprised too many 'sometimes loosely related' projects supported by various bilateral donors making the coordination of donor projects for the government extremely difficult. The government, too, 'readily accepted every money which was given'⁶⁹ due to resource constraints, weak policy-making capacity and general lack of consensus and coordination within government. The outcome of such a policy mix was that Mongolian public administration was built on 'a mixture of different models':

*'Mongolia has developed a civil service law, which was based on overly protected giant Singapore civil service system, and created a massive civil service with 100,000 employees. The principle of self-governance was adopted from Sweden while other bits of reform from New Zealand and Japanese models. In fact, our system is a mixture of everything'*⁷⁰.

Added to this, the scope of MDP was too broad, covering simultaneous reforms of both public and private sectors, including public administration, civil service reforms, decentralization, capacity building, privatization and enterprise restructuring. This 'comprehensive' approach, highly praised by its designers, made government coordination almost impossible⁷¹. For the economists, the main flaw in the MDP was its excessive engagement with management, institutions and capacity building with almost no regard of financial and fiscal management aspects of public administration:

⁶⁷ D. Tserendorj, Interview, 20 March 2002.

⁶⁸ S. Oyun, Interview, 23 May 2002.

⁶⁹ Gantumur, Interview, 23 July 2002.

⁷⁰ Batbold, Interview, 13 January 2002.

⁷¹ Batbold, *ibid.*

'When we came to power, we sat down with the IMF and discussed civil service reforms. We decided to look at the project document since it had been going on for a while. We were stunned by its approach, which was all about management and there was nothing on fiscal and financial management'⁷².

We shall now turn to the analysis of the final phase of public administration and civil service reform, when the new leadership, which emerged on the political arena after the 1996 elections, introduced slight changes in the institutional framework of the reform implementation process.

⁷² Batbold, Interview, 13 January 2002.

CHAPTER SIX

PROMOTING EFFICIENCY: NEW PUBLIC MANAGEMENT 1997-2003

6.1 Introduction

This chapter analyses the last and final phase (1997-2003) of reforms in public management introduced in Mongolia since 1990, when the new government pursued a radical reform of the budgetary and financial management framework along the New Zealand model in order to increase the efficiency and effectiveness of public administration. Following the central line of enquiry, the chapter begins with an analysis of the reform implementation process with emphasis on reform content, the objectives, policies and strategies adopted, and the policy, legal and institutional frameworks.

The chapter then moves to attempt to assess some of the initial outcomes across the entire spectrum of public management reforms (1990-2003) and their overall effect on public sector performance, with focus on contingent factors that influenced the outcome of the central reform. The subsections provide a brief account of the main changes introduced as a result of reforms, and the issues that arose in the process of their implementation.

We should note that the analysis of implementation and effect does not aim to engage explicitly in an economic and cost-benefit analysis of reforms, rather giving weight to qualitative changes in the Mongolian public administration.

6.2 New Strategy

The sudden change in government, when for the first time since transition the coalition of democratic parties came to power, had major implications for further reforms. The USAID Economic Policy Support Project (EPSP) played a key role in organizing the first Economic

Policy Workshop in August 1996 to assist the newly established government in devising its policy agenda. Three prominent Mongolian economists, trained in the USA and who had also worked in the EPSP, were recruited as senior economic advisers to the new Prime Minister (USAID 1999:9).

The new government decided to terminate the MDP on the grounds of deficiencies and flaws in its design, thus causing an abrupt shift in policy priorities. Some regarded the government's claims as merely a formal reason, pointing out that policy continuity had been severely eroded since transition, albeit the overall strategy of reforms remained intact. Successive governments preferred to follow 'their own policies' despite the existence of active policies already mounted by their predecessors⁷³. The whole programme was derailed only because 'it was the MPRP programme'⁷⁴. According to another view, it was Prime Minister Enkhsaikhan's belief that the MDP strategy was not appropriate for democratic Mongolia⁷⁵ given the new government's policy of refraining from foreign borrowing. There were suspicions about the presence of a 'competition among international organizations, fuelled by narrow institutional interests and, also, competition among their consultants for better positions in the recipient country'⁷⁶. This 'competition' factor in the development assistance to Mongolia has also been acknowledged by some donors (USAID 1999). Others, namely a former senior official in the 1996-2000 government, asserted that the Democratic Coalition government genuinely sought for new innovative reform models, which would bring about efficiency and effectiveness in the Mongolian public administration:

'Since newly elected governments have their policies formulated and it comes to the implementation stage, they are often faced with the enormous rigidity of the huge bureaucratic apparatus inherited from the previous government. In general, state bureaucracy is inherently inefficient and does too many things, which it is not supposed to. The new system will bring this to an end by introducing output-budgeting, which means, the budgets will be provided for a certain category and amount of work. Whoever does the job well gets an adequate pay according to his performance'⁷⁷.

Nevertheless, the most common view of the motives for a sudden change in priorities was a belief that politics mattered more than anything else. The new government was well

⁷³ B. Batbayar, Interview, 7 April 2002.

⁷⁴ Sh. Batsukh, Interview, 8 April 2002.

⁷⁵ Ts. Yanjmaa, Interview 13 December 2002.

⁷⁶ D. Tserendorj, Interview, 13 March 2002.

⁷⁷ Batbold, Interview, 13 January 2002.

aware in advance of the difficulties they were about to face with regard to policy implementation, since the state bureaucracy was almost entirely comprised of members of the MPRP or, at least, those who were sympathetic to it. Following the adoption of the Law on Government Service in 1996, the MPRP put them through the civil service oath, thereby formalizing their permanence. Therefore, according to this point of view, the new government, which was committed to more radical reforms along the neo-liberal lines including aggressive privatization of large strategic enterprises, had a real desire to shake-up the bureaucracy: *'The prime objective, amongst others, was to get rid of old communist bureaucrats. Because the Law on Government Service made the old bureaucracy even more powerful by legalizing their special status as permanent and tenure officers with benefits from the state, just like in Japan'*⁷⁸.

Whatever the reason, the important event that had a decisive influence on the fate of reforms was, in fact, an intense involvement of the EPSP in the assessment of existing plans for further public administration reform. The project initiated discussions between the government and key donors, including IMF and UNDP, on the need to devise a new approach (USAID 1999). It also recommended the involvement of consultants with experience in public administration reform in New Zealand. At the Second Economic Policy Workshop, the ESPD invited Mr. Ian Ball, former Deputy Treasury Secretary of New Zealand, to introduce to the new Prime Minister the performance and private sector based reform experience of New Zealand. According to the eye-witness:

'Ian Ball is the designer and initiator of the reforms in New Zealand. He was also invited earlier to Mongolia under the MDP. In March 1997, the Cabinet members held a two-day seminar on reform policies. We discussed privatization and public administration reforms. Mr. Rapchinsky from Columbia University, the Soros Foundation, presented on privatization. Ian Ball gave a very impressive presentation on the reforms in New Zealand... Paul Oquist, adviser to the GOM on MDP, seemed to be introducing the ideas of Ian Ball, but in fact, he had dropped the financial accountability and responsibility side of his ideas. Prime Minister Enkhsaikhan liked the ideas very much. Paul Oquist argued that they were going to carry it out soon. But we decided to stop the MDP and initiate our own reform programme assisted by Ian Ball. There were even rumours that Paul Oquist was kind of a Marxist'⁷⁹, besides he wasn't, really, an

⁷⁸ Tserendorj, Interview, 13 March 2002.

⁷⁹ According to Yanjmaa, he was a 'real professional', 'progressive thinker', who also advised the government of Daniel Ortego in Nicaragua (Interview, 23 May 2002).

*expert in public administration. We told the UNDP to stop his involvement and terminate the whole programme...'*⁸⁰.

In order to avoid the complete termination of the Programme, Paul Oquist approached Mr. Enebish⁸¹, requesting his assistance in the launch of a small UNDP project under the Office of the President and Office of the SIH. The project was later known as 'Capacity Building of Governing Institutions: Support for Democratic Governance' project. Later, since 2000, he became an advisor to the MPRP government/UNDP Good Governance for Human Security Programme, which impelled some to associate and identify the latter with the MDP.

Following the presentation, the government maintained and expanded contacts with key figures from the New Zealand reforms, which resulted in the launch of the Public Administration Reform Project (PARP). Ian Ball arrived to Mongolia in July 1997 and quickly produced a draft Public Sector Finance and Management Act (PSFMA). An agreement was reached to establish an expert group to work on a two-year implementation plan and to provide methodological guidance and assistance to the government, and that the TA Project should be developed to support this group. The expert group comprised foreign consultants, including those from Ian Ball's consulting company, and a group of local experts. Many of them were recent graduates in finance and economics from Australian universities, trained under the MDP. To support the project, the Mongolian authorities agreed a Fiscal Reform TA loan with the World Bank⁸². The PARP group, under the leadership of Ian Ball, produced the Mongolian version of the PSFMA with its implementation plan, which entailed the shift for all public entities to new public management within two years. A broad publicity and awareness raising campaign was initiated, with Zasgiin Gazryn Medee (Government News) placing weekly columns about the principles and international experiences with NPM. The PSFMA was presented to SIH for approval in October 1997.

The UNDP also took an active part in the project, and in some cases financially supported the activities under the PARP. Besides drafting the PSFMA, the PARP organized

⁸⁰ Batbold, Interview, 13 January 2002.

⁸¹ Former Deputy Prime Minister (1992-1996)

⁸² New Zealand paid for its consultants. The government asked ADB to finance its local experts, although it does not finance civil servants (Batbold, *ibid.*).

several study tours to New Zealand and Australia for leaders of all political parties and a large group of Mongolian MPs.

The new ESAF agreement reached with the IMF and World Bank in August 1997 entailed the adoption of a New Strategy for reforms in public administration and civil service (Box 6.1).

Box 6.1 A New Strategy for Public Administration Reform

- To improve the efficiency of government operations by decentralizing decision-making while increasing financial control and management 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 radical 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;
- To reduce civil service staffing levels significantly and adopt a more competitive and differentiated public sector wage scale to help retain high quality staff.

Source: *GOM Policy Framework Paper 1997-2000*

The sudden resignation of Enkhsaihan and his Cabinet inhibited the implementation of the New Strategy. This event was the beginning of a major governance crisis in Mongolia, when between April 1998 and March 1999 the country saw a series of political crises, resulting in rapid changes in cabinets and even long periods of deadlock without acting government. Contradictions between the MPRP, holding the presidency, and the Democratic Union dominated parliament, and infighting among the coalition parties have ravaged politics. In particular, government was hampered by the lack of a credible candidate for the Premier (1998-2000).

The successive Cabinets⁸³ installed by the democratic coalition were not successful in securing the parliamentary approval for the PSFMA, which was submitted to the SIH as the Law on the New Accountability System. It met with overwhelming resistance from the

⁸³ During 1996-2000 the Democratic Coalition government changed four times.

opposition party (MPRP), which blocked the PSFMA until June 2002. In addition, there were groups within the democratic coalition government itself that strongly opposed the adoption of the law⁸⁴.

6.3 Public Sector Finance and Management Act

We shall briefly mention the main tenets of the New Strategy based on the analysis of the 1997-2000 Policy Framework and the PSFMA (content only) (Fig. 6.2). We saw that the ultimate goal of governance reforms was to facilitate Mongolia's transition from an economic and political system which totally eliminated private ownership of productive assets, to a system which guaranteed ownership rights. Therefore the cornerstone, the key strategy of transition, was the creation of a viable private sector. According to the 1997 ESAF Policy Framework, the overall goal of the new strategy was reducing the size of the state sector in order to facilitate macro-economic 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 required 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. Accordingly, the civil service reform program aimed to achieve 'a profound change in the government's method of operation', as 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 to achieving well defined output objectives'. Both production and delivery of goods were to be privatized or decentralized to lower levels. In this sense, the new strategy did not entail a radically new path in a series of public administration reforms carried out in Mongolia from 1990 onwards. It was a continuation of the strategies adopted earlier, and a step further toward deepening broader governance reforms in line with the overall strategy of transition. Many of the policy instruments, including institutional basis for reforms under the new strategy, had already been laid out by the 1996 Policy Paper and partly introduced under the MDP.

⁸⁴ According to Batbold, the Prime Minister Amarjargal supported NPM only in his words, [Interview, 13 January 2002].

What was new in the 'new' strategy was its management framework, which suggested the more radical and direct application of private sector management principles in the Mongolian administrative system. We saw that the previous Policy Paper already introduced strategic plans, mission statements and management information systems. It also aimed at reducing the size of the government while introducing a professional government service, linking incentives and rewards with performance and results, aligning the wages to the wages of the private sector. It had introduced executive and regulatory agencies and contracting out of services and non-core functions. But its failure to install a performance oriented civil service was to be remedied by the reliance on *monetary incentives* tied up to short-term and much more tightly specified *performance contracts* and *performance reporting* even for the State Secretaries and Chief Executives, performance linked promotion and remuneration systems, 'a more competitive and differentiated public sector wage scale' with preference for monetary rather than non-monetary incentives and life-long tenure service suggested under the Law on Government Service. 'Significant cutbacks in staffing levels' were planned in order to finance this more competitive and differentiated wage scale. The civil service that was established under the MDP according to the traditional bureaucratic model had to be revamped.

For this the role of State Secretaries and agency Chief Executives as managers was to be strengthened by delegating to them responsibilities for the fulfilment of the strategic management plans. The design of the latter was to be improved by the reliance on *quantifiable output* measures and *performance targets*. If the 1996 Policy Paper attempted to introduce work standards and job descriptions, according to the new strategy only outputs would be specified and the State Secretaries and Chief Executives would decide on the inputs needed for achieving the outputs, including staffing levels. The emphasis shifted from effectiveness and output-policy relationships to *internal efficiency* and *input-output* relationships.

Also, while decentralizing decision-making, the stress was on enhanced financial control rather than participation and service delivery: 'to decentralize decision-making while increasing financial control and management accountability' and 'to introduce an interim treasury system to enable close monitoring of government expenditures' (ESAF). The idea of

desegregation 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, stipulated in the 1996 Policy Paper, was to be introduced with enhanced emphasis on *financial control and accountability*.

Clearly, the adoption of the new strategy required the overhaul of the entire bottom-up budgeting and financial management system based on inputs inherited from centralized planning. *Private ownership*, contestable provision and *competition*, and the *contracting out* of most publicly funded services are important parts of the new strategy: 'non-core functions will be removed from the civil service' (ESAF).

The timeframe for the introduction of the strategy was 1997-2000 so that, as Mr. P. Tsagaan, the then Minister of Finance declared, 'public administrative organizations could compete with the private sector by 2003' (*Ardyn Erkh* 1997).

Box 6.2 Main tenets of the PSFMA

- a) The adoption of output –based budgeting, management and reporting by ministries, agencies and parliamentary bodies;
- b) The adoption of accrual budgeting and accounting by ministries, agencies, parliamentary bodies and the government as a whole;
- c) the delegation of input management decisions to state secretaries and chief executives;
- d) the preparation of strategic business plans by ministries, agencies and parliamentary bodies for which state secretaries and chief executives will be held accountable at the end of the year;
- e) the integration of current and capital budgeting through the appropriation process in the form of appropriations to ministries and agencies for investments (on behalf of the state as well as on their own behalf) as well as for expenses of producing outputs, transfer payments etc).
- f) the preparation of appropriation estimates and annual reports by portfolio ministers, and
- g) the preparation of forecast accrual financial statements and annual accrual financial statements for the government as a whole
- h) development of treasury management and cash management capacity

Source: Project Appraisal Document on A Proposed Credit to Mongolia for a Technical Assistance Project. Report 17460-MOG, Annex 11, 1998; unpublished report to the SIH by the GOM.

6.3.1 Governance Reform Programme

Political support for this reform emanated mostly from the Prime Minister and the Finance Minister. The policy received a strong backing from international organizations, including the World Bank, IMF and USAID⁸⁵. The reform programme became part of the structural adjustment programme. Despite failures in getting parliamentary approval of the law, in 1999 the government launched an initial phase of a comprehensive 10-year Governance Reform Programme (GRP), supported by an ADB programme loan of US\$151.9m. US\$12.5m was disbursed in 2000, of which US\$ 10m was spent directly on balance of payments support, and another US\$ 12.5m in 2002, of which US\$2m was for balance of payments support⁸⁶. This was possible since the chairmen of three major parties signed a joint statement 'reflecting the deepest commitment of [their] parties to implement the [proposed public administration] reforms in the most consistent and comprehensive manner'⁸⁷ on 24 October 1998. Consequently, the two Standing Committees of the SIH approved the Bill during the spring sessions without hearing and approval of the SIH itself⁸⁸. The Memorandum of Understanding between the ADB and GOM was already signed early in 1999.

The GRP was, basically, an extension of the PARP, which started in 1997 with the involvement of the consultants from New Zealand. The first and a pilot phase (30 month) of this programme was launched in April 1998. The responsibility for execution shifted from the Cabinet Secretariat to the MOFE, which had already gained much power. The GASC was an implementing agency. The GRP included two main components: overhaul of the public sector financial management and testing administrative reforms in several agencies, such as the MOFE, the General Department of National Taxation (GDNT), the Customs Bureau (CB), the State Audit Board (SAB), the GASC, and the National Statistical Office (NSO).

As with the MDP, the Steering Committee was established at the highest executive level, including the Prime Minister, the ministers of Finance and Justice, their economic advisers

⁸⁵ B. Batbayar, Interview, 7 April 2002.

⁸⁶ Interviewee wished to remain anonymous.

⁸⁷ Source: unpublished text of the Treaty

⁸⁸ It was in violation of the Constitution and legislative procedures.

and other top executives. The Operational Working Group was established, also comprising ministers and their advisers. The programme emphasized the key areas such as civil service reform, privatisation, local government, and legal reform at all levels of government, including enterprises. In addition to the strong efficiency improvement impact, the governance reforms would also be in line with the strengthened anti-corruption agenda by increasing transparency and accountability in the public sector as well as increasing the salaries of civil servants based on the efficiency gains (ADB 1999b). It would also produce economic and social benefits as a result of improved management of the public sector. Firstly, reducing transaction costs would enhance 'the efficiency with which capital is used'. Secondly, better provision of infrastructure services would 'lower the production costs for firms'. Thirdly, better delivery of social services would contribute to 'improved human capital' (ADB 1999b:7). Combined with economic growth this would, allegedly, reduce poverty.

As with the MDP, the conditions attached to the GRP required substantial compliance with the conditions of the IMF-ESAF programme. The technical assistance, which lasted from April 1998 to September 1999, had three aspects: in assisting the GOM to prepare the inputs for the program loan, in the development, refinement and communication of the draft Public Sector Management and Finance Act (PSMFA), and in support of the groundwork for implementation of the reforms upon enactment of the law. It also involved developing accounting policies and accounting guidelines for the public sector based upon International Accounting Standards (IAS) and International Public Sector Accounting Standards (IPSACs).

The strategy implied, among others, strengthening the fiscal discipline and strategic budgetary planning by putting in place a system of top-down budgeting process and a micro-based budgeting framework taking performance-based budgeting into account; performance-based management at the central and local levels; transparent and efficient fiscal and administrative relations between local and central governments; and continued corporatization and privatisation of SOEs. The overall goal of the programme was to lay the groundwork for enabling a successful implementation of the whole spectrum of reform of the public sector in its entirety by the year 2010 (ADB 1999b). Several donors were involved in the GRP, namely, ADB, WB, GTZ, UNDP and Australia.

Surprisingly, the government has not carried out formal evaluation of its pilot projects⁸⁹. According to the PARP team most of the agencies produced high quality strategic plans. But the monitoring of their implementation was difficult to implement, as an effective performance monitoring system was not put in place prior to the piloting. The pilot agencies themselves thought that all planning and reporting had taken up too much of their time leaving less time for the real work. In addition, it was not very clear who monitored what. In the local government agencies the problem was lack of resources and ambiguities in the budgeting process, which led to difficulties in fulfilling plans - not all planned inputs were available due to lack of resources despite the substantial resources that were provided under the GRP to all pilot agencies as an incentive, including budget top-ups, equipment and training. But, as the PARP director pointed out, it was not possible to see how the NPM really worked as pilot agencies worked with budgets already approved, which made the entire exercise obscure. Therefore the piloting focused only on the procedural and technical side of NPM. The actual implementation of the GRP has been delayed as the PSFMA has remained pending in the SIH since 1997.

In 2000, the new MPRP government's Election Manifesto 'Eliminate the Governance Crisis and Poverty' contained overly generous social programmes such as provision of free education and health care, doubling of wages and pensions, provision of housing for the young and free textbooks and study materials for herder's children among other promises. The tripartite agreement was signed with the trade unions and the employer's federation (GOM 2001a) in which government undertook obligations to increase wages and pensions. But the need to sustain macro-economic and fiscal balance as agreed under the PRGF (2000-2003) prompted the government to seek for alternatives. The IMF, pointing to the potential implications of such a move for fiscal sustainability and achieving the pro-poor growth objectives of the PRGF/EGPRSP 'urged the authorities to suspend their existing plans for civil service wage and pension increases for 2003-04' (IMF 2002:17).

Therefore, confronted with the economic realities, the government planned to contain its wage bill during 2003-04 by privatising 90 institutions in the health and education sectors, while also introducing reforms to streamline the civil service. As a result, 16 percent of

⁸⁹ Tserenkhand and Sambalkhundev, Interviews, 17-18 March 2002.

current government employees would have their civil service status revoked, and another 12 percent would be laid off. It should be noted that already in 2002 the number of ministries was reduced from eleven to nine and the number of agencies from 49 to 41⁹⁰ following earlier restructuring and streamlining exercises in 2000. Ch. Ulaan, Minister of Finance and Economics, re-iterated that 'The government is implementing public administration reforms in order to deliver on our election manifesto of doubling current levels of wages and pensions. We agreed with the IMF and the World Bank that the savings from staff rationalization measures and introduction of new public management would be allocated for wage and pension increases' (*Seruuleg* April 8, 2003).

According to the Prime Minister, high and unsustainable levels of budget expenditures call for yet another wave of public sector reforms:

*'There are around 140,000 employees in the public sector. Our public sector is a highly wasteful system with large expenditures. Our overall budget deficit is Tg84 bln and the current account deficit is Tg49 bln. We need to save on some of our expenditures to reduce the load. This is essential for implementing the growth programme agreed with the IFI's, developing national industries and reducing taxes'*⁹¹.

The PSFMA, submitted to the SIH in autumn 2001, was rejected as its provisions did not comply with any of the crucial legislation on governance. Its adoption would lead to amendments in the Constitution, the laws on Government, Government Service and some 80 common laws. But compromise was achieved and the PSFMA was adopted in June 2002, a few weeks before the 10th Consultative Group Meeting held in Ulaanbaatar in 8-10 July 2002. According to the witnesses, there was no prolonged discussion: *'The Government worked on the law alone trying to align it with other laws in effect. After this the PSFMA was adopted by the SIH unilaterally almost without any discussion'*⁹². The comprehensive and nationwide implementation of the NPM model across government was planned for January 2003. This sudden and unilateral approval of the law by the SIH took many by surprise, and led to a suspicion that the decision was a 'political' one as in the case of land privatization⁹³. As many observed, an 'already consumed' by the previous government US\$10 million balance of

⁹⁰ SIH decree no. 58 of 2002 'The General Structure and System of the Government'

⁹¹ Presentation by Enkhbayar, Prime Minister at the MoFE seminar.

⁹² Bayarsaikhan, Interview, 25 November 2002.

⁹³ Land Privatization Law was adopted at the same session of the SIH.

payments support, provided under the GRP, was at stake⁹⁴. Also the agreement between the GOM and ADB on GRP was conditioned upon the approval of the PSFMA (ibid.).

6.3.2 Resistance to NPM

We shall now briefly introduce some of the events and debates that have taken place prior to and immediately after the adoption of the PSFMA in terms of the appropriateness and relevance of the NPM framework for Mongolia, given the enormous resistance to the adoption of the new law. The principles of the PSFMA, built on the NPM model, were subject to fierce criticism and disapproval by many on numerous occasions, including members of the SIH Standing Committee, which oversees public administration and civil service reform, and the participants of the round-table seminar organised by the GOM a few weeks prior to its adoption, despite the presence at the seminar of representatives of donor institutions who provided financial and technical assistance for NPM reforms⁹⁵.

The strongest resistance to NPM came from the old conservative block of the MPRP. They were concerned with an abrupt shift in policy and the resultant termination of the MDP, which could be seen as a policy failure and hence politically discredit the MPRP in the eyes of the electorate. Foremost, the introduction of private sector principles in the operations of the government was seen as 'far more radical' and extremely 'awkward' policy with potentially disastrous effects, which could destabilize an already ravaged by politics public administration. They questioned the 'feasibility' and 'sensitivity' of further reforms in public administration and polity given the magnitude of the economic crisis and failures of past 'social re-engineering' projects. They also questioned the 'capacity' of the government to implement the reforms given its failure to tackle critical issues of poverty, unemployment, crime and other social ills. There were fears that associated reductions in the size of government employment would exacerbate already high levels of unemployment and poverty. Some expressed their pessimism about the NPM, pointing to the 'failures of past administrative reforms' to improve the performance of the government and to reduce poverty and unemployment. There was a belief that introduction of the contract culture in the civil

⁹⁴ Tserenkhand, Interview, 19 March 2002.

⁹⁵ This part is based on the interview material, media reports as well as observations at the seminars and other events, organized by the GOM (Appendix 6).

service would undermine the 'stability' and 'coherence' of the administrative system, as well as affect the morale of civil servants given the emphasis of reforms on efficiency and effectiveness. Concerns were also expressed by some parliamentarians that public management reform, in the manner suggested by its proponents, would weaken and jeopardize historic traditions of a strong state, and therefore may not easily be applied to Mongolia's political and administrative culture. It is important to note too that as an opposition party, the MPRP naturally resisted and blocked any of the substantial reform options pursued by the rival party.

Once in power in 2000, the MPRP feared that radical reform of public administration and civil service would cause a disruption of the political system and erode the popular support for the ruling party. The legacy of the public sector as a major provider of employment meant that the government avoided excessive reliance on market mechanisms. Besides, the civil service still remained the largest electoral group in Mongolia. Also, the potential shake up of the current bureaucracy due to the forthcoming government restructuring and civil service retrenchment was politically superfluous.

They were also concerned about the quality and access to public services and the erosion of the public ethos as a result of rapid marketization, monetization and resultant commercialization of the Mongolian public administration entailed by the NPM reforms. The speech by O. Nyamdavaa, the Minister of Health, '*At present we subsidize 80 percent of the costs of family doctors [GP's]. Now we will not subsidize organizations and its running costs. We will purchase only products*' raised fears that commercialization of the public sector would raise the next wave of redundancies and job losses as a result of pressures to keep the operational costs down, and that, for the people, this would mean higher charges and less access to the health services: '*Anybody can be dismissed if you announce a tender and there is an outside or private organization that does the job better*'⁹⁶. Therefore the expectations of the social costs of too rapid a disruption of the government machinery, which had already seen 'too many reforms', put enormous pressure on the government and restrained support for NPM.

⁹⁶ Namkhajantsan, PARP Director, speech at the training session, 27 November 2002.

The major mistrust on the part of government administrative employees was the excessive role that was assigned to the general (executive) budget managers. They feared the unrestrained actions of newly introduced general budget managers who, under the PSFMA, were assigned exclusive powers with regard to personnel management. Accustomed to tenure employment, they feared job losses and insecurity caused by the introduction of internal markets and competition through tight performance and output contracts. They argued that the contract culture, when the general budget managers select and appoint chief managers, and the latter select their staff, would have 'disastrous consequences' for Mongolia, especially given the influence of politics and patronage in the Mongolian administrative culture⁹⁷. Doubts were expressed as to whether the system would produce efficiency and effectiveness in the public sector given the overall capacity of the economy to generate growth.

The strongest opponents of the new model, mainly of its financial management side, were local governors. They perceived that the PSFMA reduced the 'flexibility' of local governments to manage 'miserable' subsidies from the centre, which barely covered their administrative costs. According to one local governor, the new system centralizes the previously decentralized financial management system and reduces the room for man oeuvre in administering funds according to the local needs: *'200 million sent out to local governments as subsidies, in fact, is not much money. Rural life is full of surprises such as a severe winter snowfall, break down of diesel stations and alike. The new system undermines flexibility to manage our priorities'*⁹⁸. The view was expressed that introduction of the competitive culture in rural Mongolia was not appropriate due to the absence of an environment for competition: *'A small soum centre with the population of 50-70 people, hardly big enough a market to create 'competition', especially in the social services'*⁹⁹.

The fears were raised of the extreme concentration of power in the hands of the Ministry of Finance, which was entrusted with allocation of resources to all budget entities through the newly created single treasury account. The high and unsustainable level of the fiscal deficit also acts as a constraint on reforms. In an environment where the MOFE is forced to make

⁹⁷ Sh. Solongo, Interview, 25 November 2002.

⁹⁸ Comment made at the training for *aimag* Governors, 1 December 2002.

⁹⁹ Comment made at the round table discussion of the MPs and scholars, 2 April 2002.

short-term decisions on cash rationing due to the scarcity of funds, a proper system of public expenditure management is difficult to implement.

The ambiguities arose in relation to the adoption of complex financial management techniques, especially accrual accounting¹⁰⁰, which was not familiar for the Mongolians used to cash-based budgeting and accounting systems. Confusions appeared about the meaning of the technical terms 'outputs', 'products' and others, especially in relation to their application to public administration: *'In general, we have received many comments from government officials. Most of them were very cautious about the new financial management system. They have had difficulties in understanding the concepts – how the government organization can calculate the costs of all its operations and operate as a business entity'*¹⁰¹. The common opinion was that the new public financial management framework was too complex and technical, hence it was difficult to understand its main tenets: *'even members [of parliament] could not understand the law let alone the citizens. Therefore, the government did not ask its ministries to comment on it'*¹⁰².

Finally, the Mongolian Trade Unions Association criticized the government for its hastiness with the PSFMA and failure to discuss and consult on the policies with the Trade Unions. According to Demberel, Chairman of the State Organization Standing Committee of the SIH, the number of citizen comments, suggestions and critiques of the PSFMA reached over one hundred¹⁰³. Most people were cautious about the radical reform and raised doubts about its consistency with other laws. There have been suspicions that the whole enterprise is for the benefit of a few, including the New Zealand consultancy firm, who were 'doing business of selling NPM'.

The proponents of the new strategy are mainly those who are responsible for the implementation of the reform. They argued that the new system would bring about efficiency, accountability and transparency in government operations and better services by introducing the entirely new system of accountability and management. The reforms will touch upon

¹⁰⁰ Lkhagvasuren, Interview, 20 December 2002.

¹⁰¹ Yo. Munhbaatar, Interview, 12 April 2002.

¹⁰² Naranzul, Interview, 25 November 2002.

¹⁰³ Speech at the press conference devoted to the adoption of the PSFMA, Mongol TV News, June 12 2002.

every level and aspect of government: *'In terms of central government, the reforms will influence the budget planning, estimation and appropriation, monitoring and reporting processes while clarifying its responsibilities. For the ministries and agencies, not only the budget planning and reporting processes will improve, but also the responsibility of chief executives will increase with the delegation of tasks. In state enterprises, the reforms will improve their management, organizational structure and their accountability'* (Namkhajantsan 1999:106). A major thrust of reforms was on fighting corruption by making transparent the budget appropriation process, which would *'stop the tax payee money slipping into the pockets of charlatans and top officials'*¹⁰⁴. Also, the old system of encouraging expenditures rather than focusing on results and achievement alienated public institutions from their core functions of regulating social relations and serving the people on behalf of the state. The system may have served the interests of few people who worked in these institutions, thus laying the ground for dilapidation of and corruption in the government.

*...We talked a lot and have done many things about overhauling the large state bureaucratic machinery. We have almost overdone it. Many people pointed out to the problem of government servants having to daylight since they were unable to manage their workload as the ministries were 'too small' for their functions. This is the reality. From another side, many people, including our honourable members in the SIH, have limited understanding of the true objective of our reforms. They say 'once again the government is pushing with massive redundancies and restructuring. These are going to create thousands of jobless'. I repeat, the main objective of our reform is to clarify the distinction between policymaking and implementation. In other words, policy makers should never implement policies, and implementers should never mess up with policy-making. As you see, it is not about abolishing of ministries and creating new agencies'*¹⁰⁵.

They also argued that the new system sought for ways to change the current personnel selection and recruitment system, which is based on patronage rather than skills and merit. Already administrators and directors are those who make decisions with regard to personnel recruitment: *'What we would like to see, is to make this process just and fair by making them accountable to the central GASC'*¹⁰⁶. It would also increase the financial control and accountability of local governments, who in the past misused subsidies directed towards funding schools, hospitals and local cultural needs: *'too much that they failed to pay salaries*

¹⁰⁴ B. Namkhajantsan, presentation at the MOFA, 27 November 2002.

¹⁰⁵ B. Namkhajantsan, presentation at the training session, 1 December 2002.

¹⁰⁶ Presentation by the Chairman of GASC at the conference with representatives of the SIH, 4 December 2002.

*for teachers for several months*¹⁰⁷. The good thing about the new system was that the *'local elite would not be able to misallocate scarce budgetary funds'*¹⁰⁸. The estimate was made that if every general budget manager achieves savings of only 1-2 per cent per annum, then the cumulative saving to the central budget would be Tg 20-30 bln. This was seen as critical for reducing the tax rates for Mongolian businesses.

Interestingly, once the PSFMA was finally adopted the PARP team viewed the GOM decision as too hasty, as the reforms were planned for nationwide introduction without adequate preparation and that the government's capacity to implement complex contract tasks would be constrained by the capacity of government officials. Repeatedly, at numerous training sessions which they had to conduct for all central and local government staff, they had been expressing their concerns over the speedy transition to a new system. Enormous capacity building in the use of the new concepts and principles was needed. Mongolians simply did not have time to create it. There have been difficulties in understanding the technical language of the law, mismatches in the interpretation of foreign management and accountancy concepts. More questions were raised about the application of these 'business-type' and 'economistic' concepts in the work of the ministry. The only four PARP Coordinators worked overtime and were overwhelmed by the requests for training and help with devising strategic management plans and with identifying 'products' and 'outputs', unable to respond to every demand. In desperation, public entities were prepared to pay sizable honoraria for a single-day's training.

6.4 Overall Achievements, Constraints and Failures

The comprehensiveness of transition reforms in total, which involved radical attempts at introducing system-wide transformation of the economic, political and administrative structures, led to a complex set of causalities which, certainly, constrained the effective implementation of reform measures. The above factor also creates problems in defining the cause-effect relationships and in drawing definitive conclusions about the outcome of public management reforms.

¹⁰⁷ Solongo, Interview, 7 November 2002.

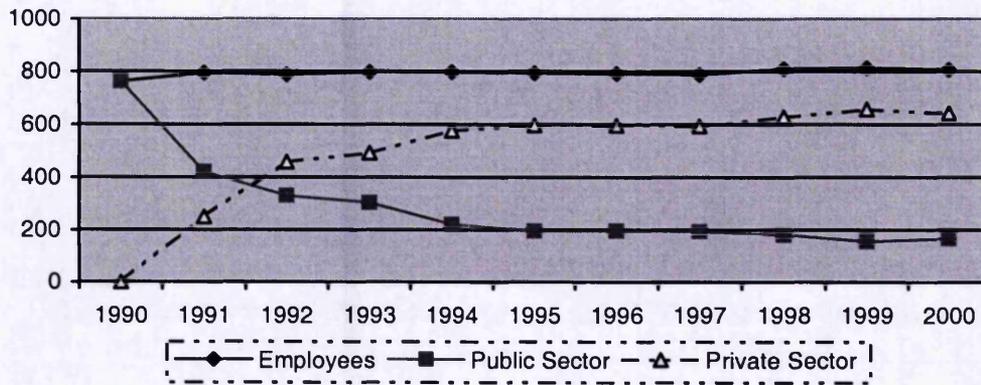
¹⁰⁸ Presentation at the Conference with representatives of the SIH agencies, 3 December 2002.

Despite all the intentions to strengthen the executive branch of the government, there was a general consensus that institutional and management reforms did not bring about marked improvements in government performance. In general, concerns were raised about the complexity of reforms in the absence of economic and structural pre-conditions for the creation of managerial and institutional autonomy in a variety of decentralized forms, fragmentation and poor performance of government institutions, over-politicization in government, lack of accountability and responsibility, and a rapid increase in corruption. Reducing the cost of public services, which was translated into retrenchment measures to reduce its size and salary freezes, led to demoralization of government service, loss of job security, and severely damaged the 'public ethos'. Fiscal savings were not secured and conditions for public sector employment were not improved. A 'vibrant' private sector, although it may have provided possibilities for employment for retrenched civil servants also became a significant source of 'brain drain' for already scarce management capacity.

6.4.1 Bureaucratization

The most evident outcome of public administration reforms is quantitative changes in the size, scope and structure of the public sector. As we said earlier, public expenditure as a ratio of GDP was brought down from 64 percent in 1989 to 40 percent in 2002 and the public sector's share in GDP was almost 30 percent, down from 98 percent in 1990. The figures for public sector employment show five-fold reduction in the overall employment from 783,600 employees in 1989 to 167,400 employees in 2001 (Fig 6.1). Throughout the decade, the economy has not created sufficient jobs for the inflow of 60,000 young people graduating from formal education annually. The private sector employment figures in this figure include a large informal sector.

Fig. 6 1 Public and Private Sector Employment



Source: National Statistical Office, Balance of the Labour Force (1990 – 1997) and Annual Employment Statistics for 1997-2000

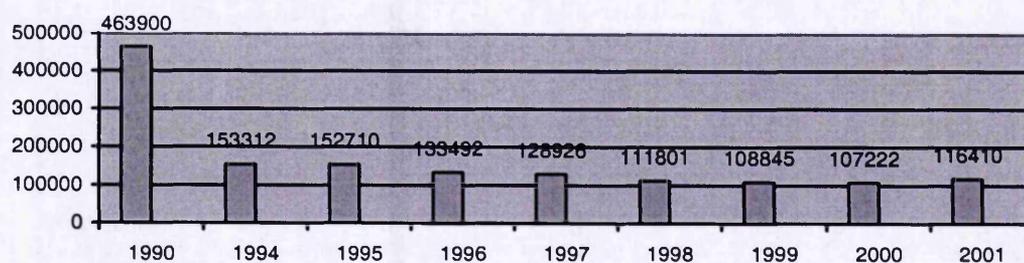
The structure of public sector employment directly reflects the qualitative changes occurring in the sector since 1990: all sectors of the real economy (the light industry, manufacturing, agriculture, construction, mining and infrastructure) saw a drastic reduction in employment as a result of enterprise closures and privatization. But decentralization reforms of the early 90s, especially the strengthening of executive government in the *aimags*, increased the overall government employment from 1.8 percent to 3.2 percent of total public sector employment. Subsequently, the tendency was towards significant curtailing of the size of the local government relative to the size of the central government (Table 6.2). Social sectors also saw an almost two-fold decrease in employment from 159,800 employers in 1990 to 82,717 in 2001.

Table 6.1 Employment by Sector, 1989- 2000

Sector	1989	% total	1990	% total	2000*
Material	451400	71.3	468800	71.9	50297
Agriculture	186000	29.3	178300	27.4	578
Forestry	2100	0.3	2600	0.4	
Industry	119600	19	135600	20.8	
Construction	41700	6.6	51400	7.9	302
Transport	47000	7.4	50800	7.8	
Communication	6900	1.1	7100	1.1	
Trade (retail and wholesale)	47500	7.5	42400	6.5	
Other material	600	0.1	600	0.1	
Non-material	181800	28.7	182600	27.9	116410
Housing and municipal	26400	4.2	27400	4.2	
Science, research and development	14100	2.2	12900	2	
Education, culture and art	74600	11.8	69500	10.7	49240
Health care, social security, sports	44700	7.1	44100	6.8	28536
Banking, finance, credit, insurance	2900	0.4	3100	0.5	
Government (central, local)	12300	1.8	20800	3.2	7568
Other non-material	6800	1.2	5300	0.8	
Total	633200	100	651400	100	166707

Source: State Statistical Office, Cabinet Secretariat (2001) Government Service Statistical Review

* Includes foreign advisers and consultants working in the government. Data for some categories of employment are not available.

Fig. 6.2 Government Service Employment, 1990-2001

Source: State Statistical Office, Cabinet Secretariat (2001) Government Service Statistical Review

Overall public sector and government service employments have seen a fourfold decrease, respectively, during 1990-2001 (Table 6.1 and Fig 6.2). In terms of the core government service, the reduction of ministries and reorganizations of government entities

since 1990 led to a three-fold reduction in the cumulative number of government staff, releasing almost 13,000 administrative personnel (Table 6.2). In 1995, the ministries employed 1,385 personnel with other government organizations employing 1,538 personnel (Enkhbat and Odgaard 1996). By 1997 the core civil service comprised 2,034 employees¹⁰⁹. One of the features of large-scale reorganizations typical to Mongolia, since they normally coincide with elections and resultant changes of governments, is that new administrations dismiss many administrative employees that worked under the previous government. The first such incident occurred in 1992, when the new coalition government dismissed 'many able government employees' (ibid.:170). The average government service turnover was 9 percent after each election. Privatization and liberalization opened up more prospects for many government employees in the newly emerged private sector.

Table 6.2. Central and Local Government Employment, 1993-2001

	1993	1994	1995	1997	2001
Central government		2,500	2,900	2034	1,886
Local government		11,300	9,500		5,682
Total	20,000	13,800	12,400		7,568

Source: State Statistical Office, Cabinet Secretariat (2001) Government Service Statistical Review

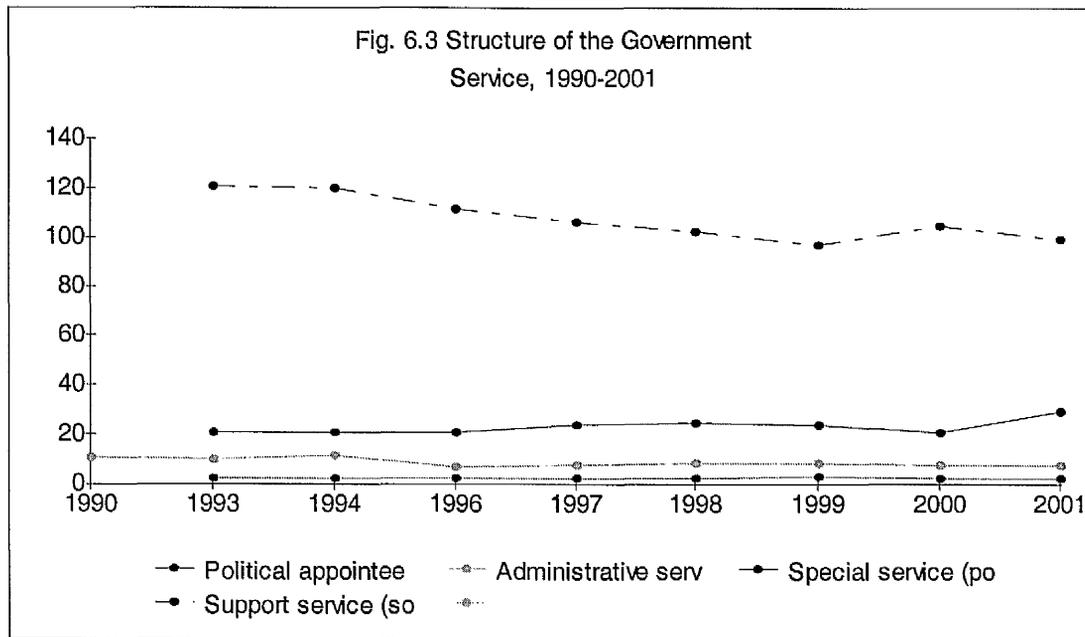
A quick glance at Table 6.3 and Fig. 6.3 shows that significant changes have occurred in the structure of the government service. The number of new categories of government employees, such as members of parliament (permanent), political appointees and taxation officers, has been on the rise. Also, there is a notable increase in the special service (policing), whereas the mid and lower level government administrative service and the government support service staff, i.e social sector employment, have seen a rapid decrease as a result of ministry downsizing and social sector rationalization, privatization and promotion of the private service delivery. As we can see, at the start of transition the core government service was rather small relative to social sector employment.

¹⁰⁹ B. Namkhajantsan, Interview, 24 December 2002.

Table 6.3 Civil Service Employment (positions), 1996-2001

	1996		1999		2000		2001	
		percent		percent		percent		percent
Central and local administrative bodies (includes the parliament, the President, the Government)	10,953	7.7	11,566	8.8	11,119	8.2	11,702	8.4
Court (Prosecutors)	1,720	1.2	1,592	1.2	1,620	1.2	1,650	1.2
Defence	16,528	11.7	18,037	13.7	18,182	13.4	18,189	13.1
Police	9,923	7.0	10,413	7.9	10,525	7.8	9,727	7.0
Education (culture, science)	58,078	41.1	53,321	40.4	53,478	39.5	55,631	40.0
Health (sport, leisure)	30,468	21.5	26,983	20.5	28,536	21.1	27,086	19.5
Taxation (customs)	1,945	1.4	2,102	1.6	2,108	1.6	2,311	1.6
Veterinary Service	3,285	2.3	770	0.6	565	0.4	578	0.5
Others	8,558	6.1	7,094	5.4	9,258	6.8	12,188	8.7
Total	141,487	100	131,878	100	135,391	100	139,062	100

Source: Ministry of Finance and Economics, Draft State Budget for 1996, 1999, 2000 and 2001.



Source: Cabinet Secretariat, Civil Service Management Department, Report on Government Employees Structure and Movement (2000)

The above statistics on the structure of government employment reveal that there has been a tendency for the government bureaucracy to grow, and a substantial downward tendency for the services sector employment figures. Figures for gender equity reveal a disappointing picture with the position of women having dramatically deteriorated: the number of women in the SIH and mid and senior management levels, including political appointees, has declined substantially. The reduction in the overall size of the public sector has been achieved largely by structural reforms, chiefly as a result of privatization, downsizing the lower levels of the administration and making cuts in social sector employment. The only two ministries that have not been affected by downsizing were the Ministries of Finance and Economics and the Ministry of Justice and Internal Affairs.

6.4.2 Poor Performance

Although the ministry restructuring has curtailed the civil service in central administration by 40 percent, it has in fact enlarged the ministries and created a large number of loose (57) coordinating and implementing agencies. This fragmentation of government policymaking led to institutional incoherence and made coordination of policies and control of their implementation more difficult. The delays in defining the legal status of the ministries and quasi-independent agencies continued until 2003, when there was no clarity in the structure, functions and relations of the ministries with other government parastatals, exacerbating the above situation. There was no mechanism to coordinate the relations between the ministries themselves. As the former top level ministry official said *'everything in those days was left on its own without any regulation and because of this we, at the Ministry, had to rely on our intuition and daily demand as to how to proceed with our work. Central management and leadership was extremely weak'*¹¹⁰.

Moreover, alienating policy-making from implementation reduced the responsibility and accountability of ministries, which had no responsibility for policy implementation: *'Ministries have little knowledge and information about the real situation on the ground. They spend more time in their offices and, therefore, have little sense of local problems and*

¹¹⁰ The interviewee wished to remain anonymous, 7 October 2002

needs. They rely more on bureaucratic paperwork, which often contains misleading data. Officials show disregard toward our needs because they are 'policy-makers'. If something goes wrong they blame us for poor implementation of 'right' policies'¹¹¹.

There are claims that this measure did not result in improved efficiency and effectiveness but hugely increased the administration costs of the public sector, functional duplication and ineffective use of scarce resources¹¹². The main drawbacks of the MDP ministry streamlining and downsizing strategies were: not well specified accountability relationships, in particular in performance definition and in incentives relating to the performance of chief executives; the Business Plans did not adequately define the outputs of the agency. Besides this, the agency reforms were not well integrated with civil service and budget law reform. There has been a lack of contractual and performance monitoring skills. The delegation of authority was not preceded by setting performance specifications in order to establish clearly that the nature of reform is to move from one form of control (based on inputs) to another (based on output). Poor performance coupled with macro-fiscal constraints prompted the government to initiate a new wave of restructuring in 2003, when all the agencies were merged to form a unified government implementation and regulatory agency.

In addition, policy making and administrative capacities of central ministries and the Cabinet Secretariat deteriorated due to shortage of staff, lack of resources, brain drain to the private sector, and poor management and coordination. For instance, an interview revealed that the analysis of the important Regional Development Concept Paper was assigned to an analyst, who acknowledged: *'A single person in the MOFE makes a draft of the Concept Paper. Then the head of our division sends it to me for analysis and assessment. I am the only person in our department involved. All I can do, as a recent graduate, is to read it and try to improve its style and wording. Then I send it back to my boss. I doubt he even looks at it. This is called policy-making'¹¹³*. There are suggestions that the workload of ministry employees has increased dramatically. Thus the Ministry of External Relations was severely

¹¹¹ Badarch, Interview, 28 June 2002.

¹¹² Ganzoring, Interview, 21 March 2002.

¹¹³ M.Erdene-Ochir, Interview, 5 April 2002.

understaffed 'if Mongolia wants to properly develop its bilateral relations'¹¹⁴. Donors noted that by international standards even prior to 1990 the central government was understaffed.

Moreover, frequent restructuring and staff rationalizations affected many civil servants. The practice of dismissing middle and junior level state employees by unrestrained senior level administrators for no obvious reason became a norm. The institutional changes gave ample opportunities for senior management to abuse their managerial discretion.

Overall, many government employees were sceptical about structural reforms, stressing the foremost importance of pay and other incentives. The real salaries of government employees, which are not cited in official papers, have fallen drastically as a result of hyperinflation and wage suppression. According to a senior government employee, '*all structural reforms are meaningless without raising the wages of civil servants so that they could maintain at least the minimum level of subsistence. They get at most 50-60 thousand¹¹⁵, more than half of this amount goes for rent, electricity and heating bills and, see how much you have to feed yourself and the children. But they are human beings and, therefore, need some clothes for four seasons, textbooks for children and much more else*'¹¹⁶. A poverty assessment in 1995 found that more than one quarter of the civil servants were poor (SIDA 2002). The effects of ministry restructuring are analyzed in more detail in Chapter 7 in relation to the education sector.

6.4.3 Politicization in Government Service

As we saw earlier, politics has a prominent influence on the government service, including decisions on recruitment, promotion and dismissal of employees. '*You become a civil servant because you are looking for business opportunities. To become a civil servant you need to join the ruling party, otherwise you are nobody and no one will accept you to the job*' said a former government employee. Donors too commented on the high staff turnover rates associated with changes in government after elections. Changes within government structures in 1996 and the reduction of the number of ministries meant that many key positions

¹¹⁴ Erdenechuluun, Interview, e-Conference, 18 February 2002.

¹¹⁵ equivalent to 40-50 US\$ per month.

¹¹⁶ Ch. Dagvadorj, Interview, 15 May 2002.

were occupied by those who have had little or no training or experience of modern public management. 'After the recent elections there have been changes in people also at civil service levels and this political and institutional instability affects the viability of the project' (SIDA 1996: 24).

Despite the efforts to create an impartial government service under the MDP, the pre-conditions for introducing a tenured, professional civil service, immune to the political changes were somewhat absent. The Government Service Law, which was praised as 'an excellent example of legislation drafted according to internationally recognized best practices and professional standards', had been hard to implement in view of the difficulties to match some of its provisions with budgetary resources. The question was raised 'whether this legal framework was suitable for Mongolian civil service reform' (UNDP 1996:22). The reports of unlawful and unfair dismissal of government employees were abundant (Box 6.3).

There are also suggestions that the introduction of the spoil system spiralled into a struggle for power and political appointments in the government service, eroding the service ethos. A common reference on the spoil system was a lack of qualified personnel for political appointees given the small size of the population. This was especially pronounced during 1996-2000 when the democratic coalition government had to create its own government for the first time since transition and assign its political appointees to central and local government positions. *'The coalition government does not have sufficient pool of skilled manpower. Many of them never worked in the government. Surely, they were mostly young and inexperienced and their performance was utterly poor. Lack of responsibility, order and discipline, corruption and misappropriation of funds reached unbearable levels at that time, creating mistrust in government'*¹¹⁷. This may well have contributed to the coalition government's defeat in the 2000 elections.

One of the important factors, causing over-politicization of the government service is the legacy of the mono-party political system, when the MPRP's domination over the politics and state administration lasted for 70 odd years. The prevailing political culture, thus, is one, which leaves little room for political dialogue and consensus between major parties. The

¹¹⁷ Tsagaan, Interview, 15 May 2002.

situation becomes especially difficult, when the two parties represent almost the two extreme ends of the ideological spectrum¹¹⁸. After the 1996 elections, the MPRP claimed that the new government dismissed on political grounds more than 15,000 government service employees besides political appointees. After the next elections, the democratic government claimed that 15,000¹¹⁹ of their employees were unlawfully dismissed. The formal reason provided by both sides was exclusively 'poor performance'. Despite the Law on Government Service, the practice of dismissal of government employees as a result of government reorganizations and ministry restructuring, as a rule launched by the new government, has become a norm: *'In general, all restructuring initiatives in this country are aimed at removing people. In some cases the entire ministry is abolished, and then another one is created with exactly the same functions. Formally, only the name is different'*¹²⁰.

Box 6.3 Politics and Government Service

In Hovd *aimag*, since 1992, 850 local government employees were discharged on the grounds of their political opinions. 70 percent of the respondents acknowledged that government employees experience constant anxieties that in four years time they may lose their jobs (Mongolian Human Rights Report 2001: 23).

Dismissal of government administrative employees on the basis of their party membership, especially after parliamentary and local elections, has become a common practice... This is definitely a form of brutal discrimination... The Government Administrative Service Council reports in its survey that since 1996 the state power abruptly swung between political parties. Frequent changes in government caused much disarray among top administrative employees (HRC 2001: 23).

After the 1996 elections, in Arkhangai *aimag*, the following government administrative employees were unlawfully dismissed: the *aimag* deputy Governor, three heads of departments, one officer, four deputy *soum* governors and five other local government employees (Boldbaatar, local administration officer).

After new Governors were appointed to six *soums* in Tuv *aimag* after the 1996 local elections, all local government administrative employees were dismissed from their jobs and the new local apparatus was established based on the party affiliation. After the 2000 elections, when the MPRP has won majority vote, the same practice was repeated (Turbat, school teacher, Tuv *aimag*,).

In Bayanzurkh *duureg* in Ulaanbaatar, the local government staff turnover reached 60 percent after the 1996 elections. The 2000 elections had the same level of staff turnover. We are getting accustomed to these 'peaceful struggle for power' between the Revolutionary and Democratic parties (Interview with Tsagaan, Bayanzurkh *duureg* local *hural*).

¹¹⁸ S. Oyun, Interview, 14 April, 2002

¹¹⁹ S. Oyun, *ibid*.

¹²⁰ Ganzorig, Interview, 21 March, 2002

6.4.4 Demoralization of the Government Service

Poor performance, over-politicization, and low pay resulted in demoralized government service. Many of the clauses of the Government Service Law were 'unrealistic' and 'not enforceable similar to other laws in Mongolia'¹²¹. The government soon realized that it was not in a position to live up to the new Law in the area of employment rights and benefits¹²². The passage of the law made little difference in terms of raising the status of civil servants let alone improving the performance. Despite all the efforts to strengthen the government service, including efforts to combine restructuring with capacity building, the status and ethos of government service has been seriously eroded. The wages for government employees did not match with those of the private sector but were kept at levels roughly two to three times less than private sector wages. The only attraction for young people to enter the government service were ad hoc opportunities for overseas training¹²³ offered by the donors and rent-seeking. Some even expressed doubts about the tenure civil service:

*'Permanent and tenure government service feeds bureaucratisation and corruption. Besides, the law did not tie the performance with the incentive system. The wages are not linked with performance. For instance, young, qualified, enthusiastic and very capable employee gets the same as the typewriter in our office, just because he has worked less years. This is the main drawback in the present system'*¹²⁴.

6.4.5 Low Capacity of Government Servants

Civil service capacity building initiatives added to the list of largely 'failed' projects, as the new HRM principles have never been internalised. The interviews suggest that most ministries rarely had institutionalised staff development policies. Lack of finances even to cover basic operational costs and delays with wages for civil servants, especially in rural areas, made any discussions on additional resources for staff development irrelevant. Also, the instability of government service as a result of the interference of politics, frequent changes in government, and high turnover rates is a major constraint in implementing effective capacity

¹²¹ Sh. Solongo, Interview, 27 November 2002.

¹²² Solongo, *ibid.*

¹²³ Erdene-Ochir, Interview, 4 April 2002.

¹²⁴ Solongo, *ibid.*

development programmes¹²⁵. Very often the trainees were refused employment on the grounds that the position was rationalised, whereas the prime reason was that *'decisions on human resources are very much based on politics'*¹²⁶. Besides, the authorities, including the GASC, demonstrated a lack of initiative and responsibility by failing to inform some ministries and departments of the new training opportunities offered by international organizations (ibid.). Under the law, the ministries and agencies are responsible for the financial support for staff development. Certain donors, especially Japan, made strong concerted efforts to train a new cohort of managers by providing overseas scholarships to young Mongolians. The costs of these programmes are high and due to small coverage they are less effective in developing in-country capacity.

The enrolment in the Academy of Management was still very low and its curriculum and course syllabuses were criticized for being too 'focused on preaching western management theory only' which may have little relevance to Mongolian indigenous management culture¹²⁷.

Sceptics suggest that, in general, the professionalism, capacity and the skill base of government service have been substantially eroded. The common assumption is that the most able and those 'with wealthy relatives or contacts in the government to secure lucrative contracts go privately'. Others find employment with international organizations and only the last ones, in terms of abilities and skills, may want to enter the government service 'in search of opportunities or survival on guaranteed salaries'.

Poverty, unemployment and interference of politics influence recruitment in the government service (Box 6.3). Every year, the GASC conducts entrance examinations, but the system defined by law 'never really works in practice'¹²⁸. The most common violation of the law was arbitrary recruitment without examination and oath-taking, followed by the failure to pay overtime.

'Here, the next generation of 'leaders' emerge by stepping up on the failures and mistakes of the predecessors...Our leaders are born through assigning multiple posts to

¹²⁵ Barkhas, Interview, 2 December 2002.

¹²⁶ Barkhas, ibid.

¹²⁷ Batkhuu, Interview, 8 June 2002.

¹²⁸ S. Oyun, Interview, 23 May 2002.

the same person, patronage and financial back up of friends in the party, school or university mates and next to kin or adulation of allies and alike (Yundendorj 1995:20).

Another factor which constrained the introduction of a merit-based system in Mongolia, is the influence of socio- and ethno-cultural factors such as still strongly preserved social kinship relations. According to this view, the common criteria for recruitment are social relational factors: 'Do I know this person? Do I know his/her siblings. Have I ever worked with them? Which *aimag*, *soum* does he/she come from? If the 'darga' is from Gobi-Altay, then the 'soldiers' should also be from that place'¹²⁹. Some see in this behaviour the reflection of enhanced social reciprocal ties and sense of responsibility for the kin as a result of hardships of transition: '*When Mr. Jadambaa took responsibility for the project, he dismissed most of his staff, almost eighty percent, and replaced them with the people from his own Arkhangai aimag. Even his driver was now from Arkhangai. I think, this is a good thing, since in Mongolia the government social safety net has virtually collapsed, and therefore, people resort to informal social nets. In the case of Mr. Jadamba, he did good for his own people*'¹³⁰. The kinship relations became crucial during transition, particularly in the face of high unemployment and general lack of opportunities outside the public sector.

6.4.6 Corruption

The most serious issue was a raging corruption at all levels of government. 'Patronage and bribery are wide spread phenomena in getting business licenses for commerce, industry and other services in the country' (World Governance Survey Mongolia 2002: 5). Corruption fuels public distrust in government. Media reports are abundant with reports on continuous series of corruption scandals among government, MPs and state bank executives.

The major loophole in the legal framework of the government service is the absence of a legal clause on 'the dismissal of corrupt government officials except for political appointees because of their legally protected status'¹³¹. Also, the delays with devising a system of administrative law precipitated corrupt behaviour and diminished responsibility of government

¹²⁹ Baatarsaikhan, Interview, 28 August, 2002

¹³⁰ Mr. Halst, Interview, 11 September, 2003

¹³¹ Sh. Solongo, Interview, 7 November 2002.

officials. The work in this direction started only in 2001. The present government hopes that tight financial control in combination with performance and output agreements will reduce corruption: *'The discussions about poor performance of the Mongolian government are taking place all over, at the top and the bottom alike... The accusations and suspicions about misappropriations and misuse of funds have been on the increase... This means, that it is necessary to reform the current system of delivering on the Government objectives by the government service as the reason of our poor performance is not the people who work but the system'* (GOM 2002: iii-13).

On the causes of corruption, there were suggestions that privatization and de-monopolization of the public services, the introduction and promotion of licensing as well as competitive and contractual culture into the public sector, have triggered and sustained high levels of corruption. Numerous studies carried out since 1990 revealed that corruption had emerged rapidly, especially on the background of rapid decentralization and privatization in the *absence of effective control and accountability mechanisms*. Government service, especially senior and middle level positions, became the subject of trade and political patronage¹³². There is an established public perception, that the privatization strategy was unfair in that it granted the enterprise directors and senior managers an easy access to public funds, while the majority had been excluded from this process. Privatization vouchers had little value (around US\$250) and meaning for the population¹³³.

According to another survey, the respondents indicated a concern about corruption and the fact that 'criminals are manipulating the economy and government borrowing' (Sant-Maral 2000: 34). The government service became riddled by patron-client ties between government officials and businessmen. Private market success depended to a high degree on arbitrary political decisions and the exercise of private force. Commercialisation of the nomenclature, with senior government officials and their offspring figuring among the nouveau riche is becoming a common feature of the Mongolian polity. A more recent survey revealed that 94.2 percent of the population believes that corruption is widespread and 53 percent consider it to be widespread at all levels. Over 40 percent regard irresponsibility of officials, unfair

¹³² D. Tserendorj, Interview, 20 March 2002.

¹³³ The interviewee wished to remain anonymous.

privatization, poor law enforcement and moral degradation as main causes of corruption, while only 2.5 percent see the connection between corruption and culture. 25 percent of respondents believe that the President is the only institution, which tries to fight corruption, with other institutions having scored negligibly (*Mongol News* 2002b).

High-level corruption has featured prominently in political scandals resulting in several MPs losing their positions and privileges and even jailed, while corruption at lower levels is fuelled by dismally low wages. The present government reaffirmed its commitment to 'fight corruption' and the national Anti-Corruption Programme is being prepared. In fact there have been several attempts to fight corruption nationwide, including an Anti-Corruption Law as early as 1995. But they have never been realised for the simple reason that 'it was not in the interests of our politicians'¹³⁴. The main disagreement is on whether there is a need for an independent anti-corruption body under the government, as some see it of little relevance given the scarcity of resources. Instead, they suggested that the government should fight the causes of the 'disease'.

Sceptics see the entire public administration as that of the 'feudal era'¹³⁵. The Academy of Management's training was seen as inappropriate for it was 'preoccupied with western theories of public administration without proper research on their relevance'¹³⁶. They see the need to develop a national development strategy which suits the local context, and which appropriately combines features of both nomadic and settled civilizations, as an urgent priority. The present government's embrace of a good governance framework has been questioned: '*Who knows, how well is this strategy appropriate to Mongolia? We need to do a lot more research on this*'¹³⁷.

¹³⁴ Lamjav, Interview, 26 June 2002.

¹³⁵ Batsukh, Interview, 8 April 2002.

¹³⁶ Batkhuu, Interview, 8 June, 2002.

¹³⁷ Batkhuu, *ibid.*

6.5 Conclusion

The chapter analysed the reforms in the Mongolian state administration and the evolution of public administration and civil service in its modern form. It showed that the need for public management reforms was dictated by the logic of the country's transition itself, with its central focus on macroeconomic stabilization and structural adjustment discussed in Chapter 4. More specifically, public administration reform sought 'to adapt public administration to the requirements of a market economy in a democratic society' and to contribute to the introduction of democratic structures and processes necessary for the successful operation of the economy. The new public management framework was chosen as an instrument for achieving this objective. This required shifts from old methods of control and command to market-based management, with focus on results/output rather than inputs.

Reforms were introduced with political imperatives too. Despite strong and sometimes overwhelming resistance on the part of the conservative strand of the MPRP, reform in the methods and style of operations of the government followed the experiences of New Zealand. The principles of efficiency, effectiveness, transparency, accountability, value for money, and entrepreneurial government became the main operational principles of government. The choice of the model was largely dictated by the donors to Mongolia and driven by budget compression. External pressures related to the need to secure balance of payments support from multilateral banks to finance current consumption levels and to alleviate poverty and unemployment, suggest that, in terms of immediate management objectives, the budgetary and financial concerns prevailed over the considerations of performance, quality of and access to services.

The top executives of the government of Mongolia, namely, the Prime Minister, Minister of Finance and Economics and the President of Mongol Bank were the prime agents responsible for the implementation of the overly ambitious reform strategy. A radical reinvention of government and the entire public sector took place in a short period of time, following a carefully designed and consistent strategy albeit with more or less significant changes in the agenda, focus and institutional arrangements. A major policy revision was a

shift from a commitment to tenure (life-long) professional government service to entrepreneurial management based on competition and performance and output contracts.

In general, important structural reforms have been introduced and some results have been achieved in transforming the public administration according to the needs of the market economy: (i) the old governance system was revamped; (ii) a decentralised system of governance was created with the delegation of most non-core functions to lower levels of government, quasi-autonomous agencies and the private sector; (iii) the size of the public sector and the government was substantially reduced in line with the changing role of the state. By 2002 public expenditures as a proportion of GDP was reduced to 44 percent against an average of 69 percent in 1985-1989. The private sector produced over 80 percent of GDP and over 90 percent of enterprises were in private hands. Government employment was reduced from near 100 to 20 percent in 2000. The next step of reforms allegedly sought to increase simultaneously the efficiency and productivity of the government by introducing operational principles of the private sector, such as performance contracts and performance related pay and promotion.

But the brief, system-wide analysis shows that reforms had only a limited positive impact on the operations of the government, largely affecting its formalised institutional framework. Needless to say, all reform outcomes are contingent upon local contexts. The particular experience of NPM reforms in Mongolia suggests that government policy-making and implementation capacity has been greatly eroded. Expectations of creating a well performing, permanent and impartial government service have also not been realized. Diminished accountability and access to information, minimal public participation and representation (including gender) in government, politicization of the civil service and bureaucratisation feature prominently in the government politics. Demoralization, skills shortage, corruption and patronage, have emerged rapidly against the background of economic crisis, widespread poverty and lack of employment opportunities. The government posts became attractive arena for distribution and re-distribution of wealth and bargaining of lucrative contracts in the context of massive privatization and sales of public assets and introduction of licensing and contract culture.

This chapter suggests that in introducing radical reforms important contextual dimensions in terms of the prevailing political, economic and social preconditions for introducing radical models, in the context of a country lacking basic history of market institutions, have not been given due regard, especially, given the 70 years of mono-party rule and near absence of the history of basic market institutions in Mongolia. This led to implications in terms of the low capacity of government entities to implement complex reforms and to internalise new values and new public management principles; low managerial and financial capacity of decentralised units to assume complex tasks; inconsistencies between the new principles and the prevailing administrative culture as well as the inertia of old mentality of the Mongols. The cost compression measures, such as civil service retrenchment and salary freezes, were major impediments to all efforts at improving performance and internalising the new ethos.

The chapter also suggests that the new model cannot be simply transferred and implemented through project loans, or through government policies and changes in the laws. As the government official put it 'the outcome now depends on the attitude change'¹³⁸, a process which takes the lifespan of an entire generation. The next chapter will examine the implementation and effects of these reforms on the public services provision based on the case of the education sector.

¹³⁸ D. Tserendorj, Interview, 3 April 2002.

CHAPTER SEVEN

A CASE STUDY OF THE EDUCATION SECTOR

7.1 Introduction

This chapter presents a case study of the education sector with the aim of illustrating the strengths and weaknesses of the application of the central new public management reforms in Mongolia discussed in Chapters 5 and 6. It addresses the effects of management reforms on the performance and policy-making capacity of the institutions of central and local governments. Attention is given to understanding how the key changes in public management impacted upon education provision in terms of quality, access and equality of education. The study does not involve a comprehensive technical analysis of the entire education sector or cover the entire Mongolian education system. The focus is on the policy outcome with special attention to secondary education.

The need for reform in this sector was not solely or even primarily financial in origin. Mongolia's education system had basic 'structural, curricular, personnel, and managerial problems that must be dealt with to prepare the nation for a democratic society and a free market economy' (ADB 1994a:A-1). The major objective of reforms in the education sector, as with other spheres in Mongolia, was 'to transform the education sector to match the changing requirements of an economy in transition from central planning to a market-oriented system' (ADB 2003:1).

Having set the key features of education provision in pre-1990 Mongolia we turn to a summary of key reforms introduced in the sector following transition to democracy and free market economy. This is followed by the brief analysis of the implementation of public administration and civil service reform in the education sector, starting with reforms at the policy and ending at the implementation level. The emphasis is on eliciting the impact and

implications of key areas of reforms on education provision, including its quality and access, drawing on the empirical evidence gathered during the field research.

7.2 Education Prior to 1990

Prior to transition one of the pillars of Mongolia's development was high and equitable level of education of its people. By the 1960s, a backward pastoral economy where the majority of the population was illiterate had become one of the few countries in the world that could eliminate illiteracy as a result of continuity of education policy and sustained high investment in education at all levels (Tables 7.1 and 7.2).

The right of every child to free education at all levels was guaranteed and broadly exercised. The educational system had several aims: first, to inculcate socialist and collectivist attitudes according to the Marxist view of education as part of the superstructure of society; second, to provide universal education at all levels consistent with the country's socialist objectives of ensuring equality of all; third, to increase scientific and technological education to aid rapid industrialization. Education was to reflect the dominance of the proletariat and its class aims: 'The basic aim of a secondary school in the Mongolian People's Republic is upbringing highly educated younger generation, who are prepared to combine both mental and physical labour and, who deeply respect the principles of the socialist society'¹³⁹. The system strongly emphasised the social development of children and youth and promoted social cohesion through significant community participation in school management and clear connections between school and work.

Given the specifics of its nomadic culture, Mongolia had a unique system of residential (boarding) schools for herders' children, which provided free food, school supplies and clothes, and accounted for 15-25 percent of enrolment in the *aimags*. Since all of this was free, there was almost no difference in educational attainment between urban and rural areas as well as between *aimags*. Education was provided not only through the formal system of

¹³⁹ Law on Strengthening the Link Between School and Life and Further Development of the People's Education System (1963).

schooling, but also through various non-formal, evening, part-time and correspondence courses run by educational institutions, community organizations, enterprises and state farms in rural areas. An extensive system of vocational training schools and polytechnics existed, aimed at providing an education relevant to the needs of the centrally planned economy with its emphasis on industrial growth. The chief function of higher education was to train specialist manpower to meet the needs of the economy and of society at large. The education was free, including free accommodation in campus, and a system of grants/monthly stipends was operated at the polytechnics (vocational schools and colleges) and the higher educational institutions. Many students studied in other countries of Eastern Europe and the former USSR.

The main characteristic of pre-1990 Mongolian education was its manifest connection with economic and political institutions, and its emphasis on technological and scientific competence and political socialization. A single-subject and single-grade teaching was practiced to ensure quality of education. Postsecondary education was also highly specialised, offering narrow skills training to fit every job specification. This education system received sustained high levels of investment, including on-going professional development of teachers, and system-wide evaluation of quality. Almost 20 percent of the state budget (12 percent of GDP) was devoted to education expenditures annually.

The education system was highly centralized to achieve maximum equality and economy of scale. The regime laid great stress on subject mastery, ideological orthodoxy, implementation of centrally prescribed material, and patterned methodological processes for teacher performance. Private provision of education was prohibited. The sector was centrally directed, administered and planned. Detailed policy decisions were made at the top of an implementing hierarchy and then the layers of the bureaucracy were expected to design and enact plans to translate policy decisions into reality. Policy statements were issued jointly by the Council of Ministers on behalf of the People's Great Hural and the Central Committee of the MPRP. The education policy was monitored by the Ideology Department of the MPRP Central Committee. The Ministry of Education was responsible for training the necessary pool of qualified manpower for each sector. Every year the sectoral ministries submitted

detailed personnel/manpower requirements for their respective sectors to the Central Planning Committee, which then sent consolidated manpower forecasts to the Ministry of Education.

Table 7.1. Number of Educational Institutions, 1921-1991

Type of educational institutions	1921	1931	1941	1951	1961	1971	1981	1991
Kindergartens		12	13	52	202	552	624	909
General secondary schools	1	109	323	428	429	521	576	643
Secondary schools for adults				1	62	294	295	341
Vocational and Technical Schools					10	30	37	46
Specialised vocational schools	1	3	7	14	16	19	25	36
Higher education institutions			1	4	8	5	7	7

Source: MOSTEC 2001.

Table 7.2. Enrolment by Levels of Education, 1921-1991

Type of educational institutions	1921	1931	1941	1951	1961	1971	1981	1991
Kindergartens		356	465	1,963	12,225	32,628	52,278	95,715
General secondary schools	40	8,160	30,420	64,328	115,399	245,005	378,888	411,696
Secondary schools for adults				120	8,777	15,817	21,074	10,400
Vocational and Technical Schools					4,761	9,403	22,676	19,252
Specialised vocational schools	15	260	1,952	2,822	9,494	11,124	19,761	15,779
Higher education institutions (at home)	1	1	262	1,462	7,775	8,525	24,093	19,827

Source: MOSTEC 2001.

Such a heavy investment in education, despite low national incomes, and the geographical, infrastructure and demographical constraints¹⁴⁰ that make education more expensive, accrued in the form of a high degree of equality and equity in education: 'Mongolia has had one of the most equitable education systems in terms of gender, ethnicity, and locational (urban-rural or regional) standards' (ADB 1994b:A-5). In 1970 Mongolia was honoured with the UNESCO Literacy Award for almost complete elimination of illiteracy among the population above the age of eight. In 1989 every fourth Mongolian attended some form of schooling during the year. The gross enrolment ratios (GER) were 98 percent for primary education, 85 percent in upper secondary education, and 16 percent in tertiary education, on par with the middle-income economies (NSO 1998).

¹⁴⁰ In 1989, 42 percent of Mongolia's population was under the age of 15, and 66 percent of them were children of nomads-herders.

7.3 Current Data

Since the state has assumed a new role of 'creating the conditions for individual's development to one's full potential', the conditions were somewhat '*slow to emerge*'¹⁴¹. The embrace of a market metaphor for how public institutions should operate and the student-centred approach (based on the notion that knowledge is not transitive but constructive) was constrained by various factors, including financial, temporal and socio-psychological.

The issues that the Mongolian education system is currently facing are manifold, including deterioration of facilities, and local governments struggling to meet high overhead costs of schooling in rural areas, to ensure adequate staffing of qualified teachers, and demoralization of teachers. These in combination greatly erode the quality of education. Those who bore the cost of structural adjustment in Mongolia were children, especially rural children and children of the newly emerging 'underclass' as a foreign consultant put it. The efficiency of education measured by its societal and private rates of return is largely constrained by the general economic recession. In 1993, 23 percent of school age children were not in grades 1-8 (World Bank 1994b). Also the withdrawal of food and clothing subsidies in boarding schools raised the direct cost of schooling for herders. Enrolment in boarding schools in 1992 was only half of that in 1989 (ibid).

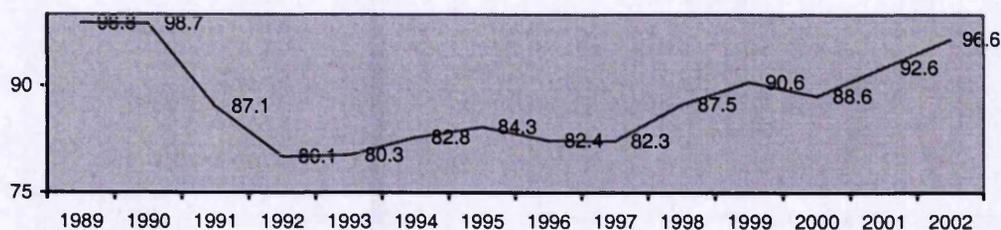
The general cumulative trend in education has been continuous erosion of the quality of and access to education. There are estimates that 170,000 people are illiterate and their numbers in rural areas are twice as much as in urban areas. The enrolment rate among 8-17 year olds is 87.5 percent and the drop out rate is 9.3 percent. Deterioration of education is especially pronounced in rural Mongolia: 'The further the school from Ulaanbaatar the poorer the teaching in school. The quality of teaching diminishes in this range: Ulaanbaatar, Darkhan, Erdenet, *aimag* centre, *soum* centre and brigade centre'¹⁴². Drop out problems will make it less likely that herdsmen's children can rise to society's highest levels. The literacy rate dropped from as high as 99 percent in 1990 to 78 percent in 1998 (NSO 1998). It is likely that class stratification will increase with the market economy and this may lead to greater

¹⁴¹ Jadambaa, Interview, 28 March 2002.

¹⁴² Itgel, Interview, 20 November 2002.

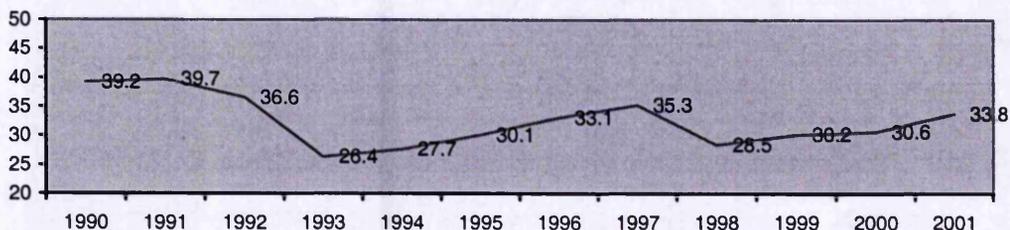
rural-urban differentiation in politics. Education is likely to be a scarcer commodity, and the proportion of urban-born elites will rise.

Fig. 7.1 Gross Enrolment in Basic Education (per year), 1989-2001



Source: MOSTEC, 2001

Fig. 7.2 Gross Enrolment in Pre-School Education, 1990-2001



Source: MOSTEC, 2001

Enrolment at all levels of schooling is lower in rural areas: 24.6 percent for pre-school, 84.7 percent for primary, 67.6 percent for incomplete secondary and 25.4 percent for complete secondary (Table 7.3).

Table 7.3 Urban-Rural Gaps in Enrolment in 2000

Level of Education	Enrolment percent		
	total	Urban area	Rural area
Pre-school (3-7 ages)	32.1	48.4	24.6
Primary (8-11 ages)	90.9	95.7	84.7
Incomplete secondary (12-15 ages)	81.7	92.6	67.6
Complete secondary (16-17 ages)	49.9	67.6	25.4

Source: NSO, 2000

7.4 Policy Framework

Following Mongolia's economic and political transition, in the education sector sweeping reforms have been instituted: 1) across the board changes were introduced in the content, curriculum and methodology at all levels of education to 'reorient the education from communist ideology to national heritage' and to adapt it to the requirements of the newly emerging labour market discussed in Chapter 4 (World Bank 1994b:3); 2) as the largest public sector, the education sector has also been subject to central new public management reforms discussed in Chapters 5 and 6, which redefined the role of the state and restructured the government machinery according to its new role; 3) a comprehensive sector programme was initiated to restructure and adjust the sector to fit the new macro-fiscal framework.

As part of the economic transition and under agreements between the GOM and the IMF, the National Development Board was charged with developing policies to protect the social infrastructure: 'The structural adjustment necessary for this transition could have disproportionate impacts on the education and human resources (EHR) sector if the sector's key role in the transition is not carefully articulated. Serious damage to the present education and training system could even cause a decline in public acceptance of the structural adjustment process itself' (ADBB/GOM 1994:i).

The first policy document in this area provided a 'framework for maintaining a focus on education while making the shift to a new Education and Human Resource (EHR) system more closely linked to economic requirements of the market and individual responsibility for a greater share of educational costs beyond the basic educational level' (ADB/GOM 1994:9). The bill 'Concept on the Mongolian Educational Development' was approved in 1990 and the Human Resource Development and Education Reform Project Master Plan was developed with the support of the Asian Development Bank in 1994. More recent policy documents that defined the government's vision of education reform were adopted in 1995 and 2000, the development of which was assisted by the ADB. The latest Social Sector Privatization Policy, assisted by the World Bank, was adopted in 2002. The Constitution and Education Laws of 1991, 1995 and 2000 form the legislative framework for these policy documents.

The main direction for reform was to introduce a paradigmatic shift from the state centralized provision of education as a unified system of values, knowledge and skills with strong emphasis on the needs of a society (old), to a system, which respects diversity, personal freedom, individual's needs and wants, which is service oriented, relies on market principles and mechanisms of service provision and allocation, and which adheres to both tradition and international, universal standards (GOM 1995c). The role of the state was 'to facilitate the individual's development according to one's potential by creating favourable for this conditions'¹⁴³. Consistent with these changes in the conceptualisation of education and the role of state within it, the reforms focused on adjusting the structure, management and operational principles of the sector. The Education Sector Development Programme (ESDP) was the major instrument of a system change. In addition, several international organizations supported the above reforms. Some were channelled through the National Poverty Alleviation Programme (1994-2000). Despite claims by the government of the priority attached to the education sector, in fact both domestic and external funding of the sector was insufficient. 'The Mongolian government does not pay adequate attention to its education sector. They should look at the experiences of other countries, including Japan, who devoted huge resources to its human capital development'¹⁴⁴.

Box 7.1 Donor Support for Education

Grants

School construction (16-17 schools) - JICA	\$25 mln.
Rural School Development – DANIDA	\$0.88 mln.
Learning for Life (noon-formal education)- DANIDA	\$1.7 mln.
Education reform projects (teacher training, school grants, textbooks, resource centers, pre-schools, school based curriculum reform- Soros Foundation	\$6 mln.
National Pre-School Strengthening-Save the Children/UNDP	\$1.48 mln.
Technical and vocational education –GTZ	\$1.7 mln.
University management, planning, quality assurance,	
Professional development for public servants – EU/TACIS	2 mln Euro.
Higher Education Scholarships – Soros Foundation	1 mln.
Non-formal education for drop-outs	\$1.32 mln.
Distance education equipment – KOICA	\$0.43 mln.

Loans/Credits

Second Education Development Programme – ADB	\$18.8 mln.
Technical and Vocational Education (under preparation)	\$15.5 mln.
National Poverty Alleviation Programme (education component)	\$1.3 mln.

Source: World Bank, Mongolia: Public Expenditure Review, 2002

¹⁴³ Jadambaa, Interview, 28 March 2002.

¹⁴⁴ Mr. La Porta, Interview, 10 April 2002.

7.5 Financing Education

Between 1990 and 1992 under the IMF stand-by programme, the government's expenditures in general and education expenditures specifically were cut by almost threefold, 57.6 percent and 56.0 percent respectively. The allocation to education as a ratio to GDP was reduced twofold (Table 7.3). The increase of education expenditures in the state budget to 22.7 percent in 1991 reflects a decline in spending on other budget items (particularly subsidies) rather than an absolute increase in education spending. Since, on a per capita basis, from 1990 Mongolia qualifies as a nation with one of the lowest incomes (the size of GDP decreased threefold) and with hyperinflation, the absolute decrease in spending on education is profound. In 1993, the state budget was about 25 percent of GDP (World Bank 1994b).

Table 7.4. Financing Education, 1980-2001

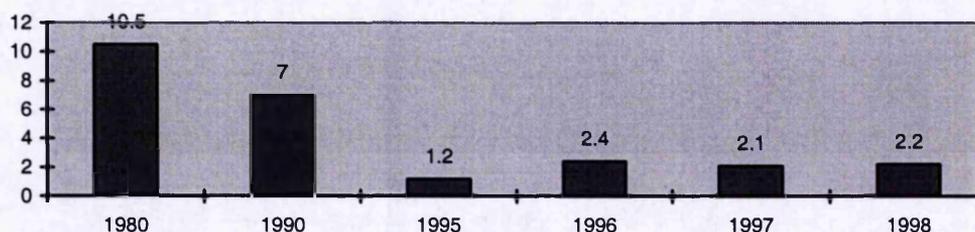
Education expenditures	1990	1991	1992	1993	1994	1995	1996	1997	1998
as % of GDP	11.3	10.3	6	3.8	5.8	5.5	5.5	6	
as % of budget expenditure	17.6	22.7	26.2	15.2	16.2	17	16	15.1	

Source: Education Sector Development Programme, 2001 Report.
World Bank 1994.

As a cost reduction measure, capital investment in education was halted (Fig 7.3). Salaries and social security were reduced from 53 percent of the recurrent education expenditures to 33 percent in 1993 (World Bank 1994b).

At the same time as austerity measures, economic reforms affected the sector. The administrative and overhead costs, and food subsidies doubled between 1991 and 1993 due to rocketing of prices for food, supplies, electricity, heating and transportation (ADB 1994b). Heating and utility costs alone accounted for 60-70 percent of the school budget and many *soums* were unable to pay teacher's salaries. In 1992-1993 the Ministry closed 80 schools, or 18.8 percent of the 426 rural schools, during the winter months in order to reduce overhead costs (World Bank 1995b). Privatization of utilities in rural areas led to sky-high utility costs due to reduced economies of scale. Schools and kindergartens reverted to local heating systems (chimney). 160 schools and kindergartens across the country were closed during winter 1991.

Fig 7.3 Share of Investment in Education Budget, 1980-1998



Source: MOSE, Education in 1980-1995, Statistical Review, Ulaanbaatar, 1996.
Education Sector Development Programme, 2001 Report.

The education sector reflects many of the difficulties of Mongolia's transition to a free market economy and democracy. The structure of education expenditures was shifted towards basic education, cost recovery was introduced at the higher education level and partial cost recovery at the pre-school education level. The Academy of Sciences was abolished, and its research institutions were merged with universities.

According to MOSTEC most facilities have been in use for more than 20 years. The heating system in many schools is either not working or is severely deteriorated, and school equipment is outdated or broken. Many schools limit the number of students for upper secondary enrolment (grades 9 and 10) or refuse to accept rural migrant children, pointing to the lack of facilities¹⁴⁵. The current capacity of all schools is only 62.7 percent of the required capacity nationwide (MOSTEC 2000b). Tg 12.4 bln is needed to increase the capacity so that schools can function according to the policy norm and standards, but in 2003 the government planned to allocate for this purpose only Tg 1 bln¹⁴⁶.

Financing in education is now based on norms for per student costs, which is judged as more relevant than the total cost for identifying opportunities for improving efficiency.

¹⁴⁵ Most schools in Mongolia offer complete secondary education.

¹⁴⁶ N. Naranchimeg, Interview, 6 June 2002.

7.6 Separation of Policy from Administration

In terms of structural changes in the MOSTEC, since 1990 the Ministry has been restructured five times¹⁴⁷. The key restructuring was under the 1996 Policy Paper (Chapter 5), when the Ministry's role changed to that of supporting the Minister of Education in implementing the Government Action Programme (GAP). The Ministry of Enlightenment was merged with the Ministry of Culture and this new Ministry assumed strategic planning, policy coordination, regulation, and monitoring and evaluation functions. Accordingly, it was reorganized into 1) Strategic Planning and Policy Coordination; 2) Public Administration; 3) Policy Regulation; and 4) Information Monitoring and Evaluation departments. The number of departments was reduced, some 13 positions were made redundant, strategic mission, vision and strategic plans were introduced anew. For instance, a single Policy and Strategic Planning Department had been responsible for the strategy, policy and planning of the entire education sector. The policy-making function was split between three new divisions: Education Policy Planning, Cultural Policy Planning and Science and Technology Policy Planning. The Minister and his adviser became political appointees in charge of internal affairs. A position of a State Secretary of Education, immune to politics and in charge of appointments and functions, was introduced anew.

This restructuring, based on a functional rather than sectorial structure, was seen by most respondents as positive in terms of eliminating duplication of functions and introducing functional clarity and specialization. It established organic relations and linkages within the Ministry and reduced the workload of employees, so allowing government servants time for self-development. Especially positive outcomes on policy-making had the establishment of a large Policy and Strategic Planning Department, which was responsible for policymaking and strategic planning for the entire sector at all levels of education.

In terms of its disadvantages, firstly this restructuring created the need for more personnel, with the resultant increase in the number of government servants. If, under the sectorial structure, the Ministry could have one person responsible for all stages in the policy process – policymaking, implementation and monitoring and evaluation under the new

¹⁴⁷ Ts. Gelegjamts, Interview, 16 April 2002.

structure, these functions were separated with the creation of big departments. In addition, a separate Quality Inspectorate – a semi-autonomous agency - was created with outposts in the *aimags*. Therefore functional separation of departments increased the overall size of the government and had implications for Mongolia with its scarce human resources: ‘*My experience suggests, that this model is not appropriate for countries with a small population such as us. That is why, since 2000, the government reverted to the old sectorial structure of the ministries*’¹⁴⁸.

Secondly, a serious implication of this structure was the erosion of cooperation and instead an infusion of suspicion among departments, which often stems from the nature of their work. Some saw employees in the Monitoring and Evaluation Department as inspectors constantly focusing on the flaws and mistakes in the work of other departments, instead of seeing them as colleagues. Similarly, the Policy and Strategic Planning Department was consistently criticised for producing ‘useless blank policy statements’ and, as such, their work was largely regarded as unimportant and bureaucratic in nature.

*Of course, monitoring and evaluation reports are useful tools for policy analysis and policy assessment. But often, the very fact that this department was charged with monitoring and evaluation responsibilities makes them to approach things from the critical, negative standpoint. They became inclined to criticise just to critique and their conclusions are often unfair, subjective and unconstructive*¹⁴⁹.

Perhaps the most serious effect of separating policy from implementation, with regard to the work of the Ministry and at sector level, was the diminished responsibility and accountability of policy-makers as they were no longer responsible for implementation of their policies. Failures of policies were interpreted as failures of implementation. In addition, the Ministry employees felt that they had a diminished sense of the reality and understanding of the issues in implementation. As they often did not receive policy feedback the chances that policies are ill-suited and prone to failure become even greater¹⁵⁰. Moreover, the respondents felt that they were somehow detached from the local level units and that their visits to schools and universities were almost unnecessary: *Often government servants say that their job is*

¹⁴⁸ Munkhjargal, Interview, 27 May 2002.

¹⁴⁹ Purev-Ochir, Interview, 16 November 2002.

¹⁵⁰ Nergui, Interview, 20 December 2002.

*policy-making not making trips to rural areas*¹⁵¹. The implication of such a policy measure was fragmentation and compartmentalization of the policy process.

7.7 Government Service

This section provides a selection of sketches of six government servants to illustrate qualitative aspects of educational services. Of these six government servants interviewed at the MOSTEC¹⁵², none was employed through the GASC, though all come from within the education sector. Two, one an officer and one a Head of Department, were employed in 1996 under the Democratic Coalition government and were dismissed in 2000. The other four had all been in relatively long-term continuous employment: all were employed prior to 1990. Of these, two were senior officers almost throughout employment, one had been promoted to Head of Department, and one remained Head of Department.

According to the remaining four employees, the Ministry employed its personnel directly. The common procedure for recruitment, in the words of the respondents, was as follows:

'The Ministry person first noticed me when I was giving an TV interview as a delegate from our University to the Mongolian Revolutionary Youth League Conference. Later, he asked our rector's opinion regarding myself. I was presented to him as one of the best lecturers and as a loyal to the party communist. They came to me and offered a job, while promising an apartment house within a year. As I was listed the 50th in the list of housing claims, I happily accepted their invitation and took my employment after a Russian language test'.

Table 7.5 Characteristics of Respondents

Respondent	Sex	Position	Tenure (years)	Previous Employment	Qualification	Employment
1	Male	Officer	4	Kindergarten Principal	Degree in Teaching	Dismissed in 2000
2	Female	Senior Officer	10	Graduate Student	PhD in Education, Mathematics	Continuous
3	Female	Promoted Head of Department	13	University Lecturer	PhD in Education Studies	Continuous

¹⁵¹ Focus group meeting with directors of *aimag* education centers, 22 April 2002

¹⁵² Thereafter referred as the Ministry.

4	Male	Dismissed Head of Department	4	University Lecturer	Masters in Mathematics	Dismissed in 2000
5	Male	Senior officer	18	University Lecturer	PhD Mathematics	Continuous
6	Male	Head of Department	29	Graduate Student	PhD Mathematics	Continuous

Another respondent was employed through the University. The Head of Department sent a letter to the University asking them to recommend a graduate student (meeting certain criteria) for a new position. She was accepted for employment in the Ministry after interviews and the Russian language test. Another respondent was employed directly by the new Minister as a political appointee in 1996, after the adoption of the Government Service Law.

Pay

All except for one respondent viewed their salaries as inadequate, although their salaries were the highest in the Ministry: *'For ten years I have been living in the same house on the same salary'*. The one who answered *'adequate, compared to the rest of employees'* enjoyed extra incomes by participating in various donor projects, and received bonuses according to his skills and years of service (10 percent extra for PhD). As government servants, they have benefited in terms of tuition grants to one child per family, state coverage of the majority of social and health insurance payments, and travel to their families if they lived in the countryside. One suggested that they could also claim up to 70 percent of their costs for overseas treatment. The greatest benefit though was *'access to information and some opportunity to influence policy-making'*. But it was reported that this opportunity was greatly eroded since 2001.

Staff Development

Most departments were understaffed, with 11-12 employees in each department. Professionalism of the Ministry staff was *'not brilliant'* but *'tolerable'* according to half of respondents. Only two of the respondents had been through *'professional training'* in public administration and management and other areas related to their work. Some went for short

familiarization trips to overseas countries, but these were ad hoc visits arranged by donors. According to a respondent, none of her visits had any relation to the Ministry. However mid- and junior level staff have no opportunities for visits.

Again, half the respondents identified the level of professionalism – in this case of their colleagues - as *'inadequate to the current needs'*. The major problem, which greatly constrained policy-making and evaluation, was lack of English skills:

'Our education system is adopting the USA model. But we do not know whether it is appropriate for us because of English. We only speak Russian, but the reforms in our country are many years ahead of Russia in terms of management, decentralization and other structural changes. Thus, the credit system in higher education was introduced already in 1993, while Russia is just beginning to pilot it since 2003'.

There was no systematic staff development policy in the Ministry, although the educational level of its staff measured high compared to other ministries. The HRD strategy of 1999, with its decentralization of training and reliance on the concept of 'learning organizations', was viewed as inappropriate for Mongolian public institutions, especially during transition when they needed maximum information and adaptability, given the country's geographical isolation, lack of financial resources, access to Internet and lack of available information and resources for training. This failure to institutionalise its own HRD system was linked to the weak management, especially when two of its Ministers during 1996-2000 were *'youngsters'* under 30, who in addition had no relation to the sector: a youth worker and an international relations specialist.

The same situation was observed at the sector level, where teacher training has been decentralised with a shift to a new HRD of 'life-long and on-the-job training of teachers'. A voucher system was introduced to boost competition in the field. Financial and other constraints meant that the voucher system was not successful as evidenced by teachers. The problem was also compounded by high staff turnover, retrenchment, restructuring and outflow of government servants to foreign migration and private sector: *'In 2000, aimag governors were all removed except for three or four, education centre directors were all replaced except*

for three or four, aimag and soum school governing bodies all change, as a rule, and school directors almost 80 percent replaced¹⁵³.

Recruitment

Merit based recruitment through GASC examinations was non-existent. Other criteria determined decisions on recruitment, promotion and dismissal. In terms of political appointments, the process was described as '*cutting a cake*'. This process filters down to the senior-mid level and even politically neutral junior government servants. According to the former ministry official, this instability and unpredictability has greatly eroded the morale in the Ministry. He describes his situation after dismissal as:

'The government servants work for little remuneration because they are committed. And when these people, who lack business mentality and 'taste for money', lose their jobs they fall into very uncomfortable situation. His name and reputation are affected, he also loses in terms of pension allowances. When dismissals affect highly capable individuals with foreign language skills and who have international experience, such policies are against the interests of the nation'.

Another respondent was dismissed from his job after he went for the overseas studies.

In general, the Ministry announces vacant positions for exams that take place every July. But the system does not work, i.e. nobody is employed through the GASC. Firstly, they are too weak in relation to powerful Ministries: '*The GASC is in effect a useless body. They are there to approve applications of all those who are backed up by recommendations from the ministry*'. Secondly, its chairman is an MPRP person, which means that the government service can never be free from politics. Besides, as '*big politicians*', the Ministries rarely take it seriously. By law the Council considers cases of unlawful dismissal and approaches the ministries, but they are often '*ignored*'. Thirdly, all believed that strong candidates never go through '*humiliating*' exams. Fourthly, the recruitment by multiple-choice tests when candidates select one answer out of four, was seen as '*not reliable*' for revealing qualities that are essential for a good policy-maker and, therefore, arbitrary and misleading, especially when it is poorly designed: '*I doubt that one's real potential can be revealed by tests*'. Finally,

¹⁵³ Jadambaa, Interview, 28 March 2002.

even when the potential candidates take exams, they turned out to be *'fictitious'*: *'the trade in ambitions of heads of departments and ministers takes place'*. As a rule, the Ministry recruits immediately when the position is open, but formally advertises it for exam entrance. All candidates sit the exams but *'no matter how good your results were the Ministry will employ its own recruit'*. The recruitment is mostly based on political patronage and other subjective criteria. There has been general mistrust of the GASC exam procedure and an apparent conviction that *'good'* managers are better able to recruit suitable people but, of course, they should do it *'without politics and patronage'*.

Promotion

As with recruitment, both promotion and dismissal were highly influenced by the politics. According to one respondent: *'I am not a party member, which is why I have never been promoted to top executive positions. I remained in my position for the last ten years'*. Other respondents linked her permanence to her exceptional professionalism, abilities and *'usefulness'* under any regime. Indeed, these three are the longest *'survivors'* in the Ministry. Everybody else came after various political changes in 1990, 1992, 1996 and 2000. In addition, patronage, family, and kinship relations strongly influence personnel recruitment and promotion decisions: *'ten out of eleven new recruits to the MOSTEC in 2000 come from Gobi-Altay aimag. This means there is no management culture in Mongolia'*. The interviews pointed to the existence of many subjective factors that influenced decision-making at every level, including personnel decisions: small population, kinship and locality relations, party relations, friendship, bribery (usually a bottle of whisky), simplification, disorganization, love for freedom, drinking habits, earnestness and willingness to defeat the competitor, bureaucracy and desire to command. The prospects for promotions were linked to the above factors:

'If you're really good you can influence policy-making. But you need to prove that you are capable. But the prospects for promotion are closed. It now depends on money and your political ambitions'.

However, alongside this negative image certain characteristics of Mongolian mentality, such as vertical, non-standard thinking, ability to find simple solutions to complex issues, flexibility, truly friendly relations between colleagues, mutual help, support during sickness and other misfortunes, readiness to stand up and defend one's friend *'by own chest'* were

identified as qualities that help establish an effective teamwork and mutual substitution '*for free*'.

Performance

All respondents expressed dissatisfaction with their departments in terms of performance. Several factors which affected performance to varying degrees were identified, including the low salaries, increased workload, constraints related to general lack of funding and lack of professionalism discussed in previous paragraphs. Also, inadequate performance management, frequent changes in government and lack of policy continuity had a negative effect on staff performance.

The workload varied among departments. As the most deregulated sector awaiting its full privatization, the department for tertiary education had a 'normal' workload for its eight employees. Two staff had been blacklisted for redundancies to meet the MOFE instructions to ministries to achieve 15 percent budget savings in 2002. But it would not affect the workload of the department as they were both hired as '*their people*' under the previous government by '*deliberately creating*' two new posts. Quite contrary result was expected: the respondent was confident that '*the performance of our department will improve*'. This shows that there are other factors affecting performance. The most overloaded department was the one - for primary and secondary education, with only 11 officers for the entire sector, which oversees 55,000 students and 20,000 teachers in approximately 700 schools throughout the country. Yet, here as well, one person was blacklisted for redundancy in 2002. All departments agreed that staff reduction had reached its critical point and that there was no room for further redundancies: '*In Mongolia, one ministry specialist does the work of the entire department*'.

Lack of funding was translated into disrupted lines of external communication. Thus, the Ministry personnel are allowed to make only a limited number of phone calls (within \$10 a month). More recently, the Ministry was '*blinded, made deaf and dumb*' after the installation of the new internal communication system, which restricted making external calls. Besides this, there are shortages of paper, copiers and basic supplies. They often have to ask other organizations (universities, partner organizations) for help. The internal management

information system mostly does not work at all, or does not provide necessary information, it is poorly run and often is not updated. In extreme situations the staff applied for funds by writing proposals to donors or worked as National Coordinators for donor funded projects.

Lack of professionalism was also explained by arbitrary recruitment of people without adequate skills and qualifications, including those who '*never worked in administration*' and who joined the Ministry for their own training and skills development. Also, absence of the institutionalised HRD policy, mentioned above, was a key factor contributing to poor performance in the Ministry. As the senior official at the MOSTEC acknowledged '*the personnel policy and cadre training in the government sector has virtually collapsed and non-existent so far*'¹⁵⁴. But it should be noted that there is general lack of understanding of the new HRD approach in Mongolia, and 'old' thinking that staff development is a purposive formalised activity carried out by specialised training institutions still prevails.

Lack of transparency in decision-making, failures of information exchange, of teamwork and other collective mechanisms, and disrupted horizontal reporting within the Ministry were identified as serious constraints to performance. Interdepartmental meetings have not been held since 2001. As a result, there is no sharing or collaboration between departments. Added to this, a lack of functional integrity and broken lines of communication and reporting made the departments unaware of the results of particular policies. More recently, decisions are made solely by the heads of departments and are not shared with subordinate staff leaving them to '*speculate*'. Even meetings within departments are rare. Consultations by top executives with staff on major policy issues are not held. All these increase the likelihood that decisions are wrong or ineffective. Besides the risk, this lack of transparency and of participatory and consultative mechanisms greatly eroded staff morale, breeding apathy and indifference amongst government servants to the overall work of the Ministry.

Change in government was another factor, mentioned by all, which affected performance in many ways: '*all governments resorted to restructuring and changing lots of people. In our department, only 2 people have worked for ten years. I am the only one, who had worked continuously*'. The Ministry restructuring measures became instruments of

¹⁵⁴ Ts. Gelegjamts, Interview, 16 April 2002.

struggle for lucrative positions and power between competing interest groups: *'My functions were split into two to create a vacancy for a new recruiter'*. The government machinery has become an arena for trade and bargaining of one's political and business ambitions, and is long-established that government posts are subject to trade and financial manipulations¹⁵⁵. This creates instability and uncertainty in the government service and jeopardises work incentives and performance: *'employees are less confident in what they are doing'*. Also, of no lesser importance was disrupted policy continuity as a respondent puts it: *'Before we used to say 'state policy' whereas now we say 'the present government policy'*.

Performance was also affected by an inadequate performance evaluation system. Performance is assessed against set criteria such as fulfilment of scheduled tasks, quality of work, attendance, time management and other general benchmarks. This system was criticised as *'too vague and too general'*, allowing dismissal of skilled employees on the grounds of *'poor performance'*. Evaluation was also formal and not linked to accountability: no measures are taken, no meetings or discussions are held and no feedback is given. Those who were irresponsible and failed to fulfil their plans were only told *'you are so bad'*. Also, performance evaluation was subjective: it did not differentiate among staff working on long-term and more strategic tasks and those working on short-term routine tasks. Insufficient salary differentiation between the tasks and poor management skills of mid-and senior level managers were also cited as factors inhibiting performance.

7.8 Decentralisation

From 1991 provision of pre-school and secondary education became the responsibility of local governments. Within the sector, decentralization meant creation of regulatory agencies under the jurisdiction of the Minister of Education, functional decentralization of the ministry itself, and granting greater autonomy to higher educational institutions and schools. As a result, the education sector is the most decentralized sector in Mongolia, where local governments spent 70 percent of combined education expenditures in 2000.

¹⁵⁵ Tserendorj, Interview, 20 March 2002.

At the level of MOSTEC, the benefits of decentralization accrued in terms of reduced workload and increased specialization. Other positive impacts included savings on the budget, and an adequate structure of government administration. Previously, the Ministry was responsible for the entire sector, including policymaking, implementation and monitoring. For example, at the tertiary level the Ministry organized entrance and graduation exams, exercised administrative control, approved the university curricula and course syllabuses and established the legal framework for the sector. The work of government officials at the Ministry was described as that of 'fire-fighters'. This created dependency-thinking in schools and universities. At the level of units, decentralization encouraged their autonomy, local initiative, competition and self-sufficiency.

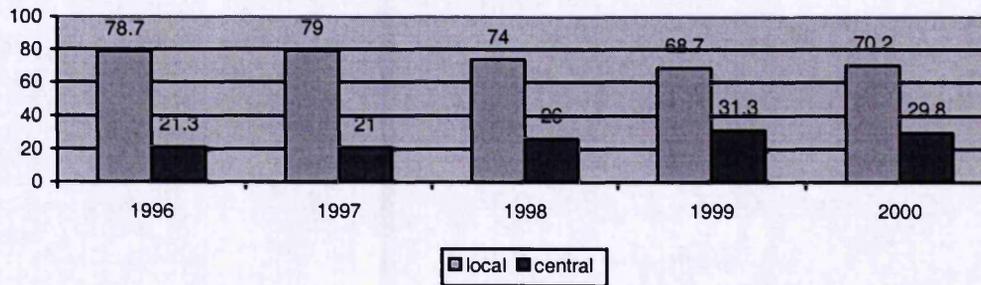
But several tensions arose with respect to decentralised provision of education. Local governments were overwhelmed by enormous commitments referred to them by the central government. Central support in terms of policy coordination, guidance, training, and adequate funding to facilitate the process has been weak or non-existent. The transfer of education functions against the background of the collapsing economy has been rapid, with almost no previous experience. Problems were greatly worsened by severe fiscal stringency. *Aimags* generally spend 30 percent of their budgets each year on education. In 1993 and 1994, local governments devoted 46 and 43 percent respectively of their budgets to education. The outcome of this policy was serious fiscal crisis in local governments. In 1992 and 1993 the local government budget deficit surpassed that of the central government by nine and twelve times, respectively¹⁵⁶. In 2000 all local governments experienced budget overruns, and local government arrears equalled over 2.4 percent of GDP.

Local governments have little authority over revenue sources given the general lack of resources at the centre. But still, even if this autonomy was granted, the local economic base is not sufficient for the delegation of responsibility for education services to local administrations. The gap between local revenues and expenditures is very wide at the moment. Only three jurisdictions (Ulaanbaatar city, Darkhan and Orkhon) are financially self-sufficient in fulfilling central government mandates. The other 18 *aimags* rely on state transfers for some 60-80 percent of revenues. Most *soum* governments rely almost entirely on

¹⁵⁶ Gantumur, Interview, 23 July 2002.

local *aimags* for revenue transfers (as during socialist era – local collection of taxes and consolidation at the centre and then central re-distribution/re-allocation according to the needs).

Fig. 7.4 Local and Central Government Shares in Education, 1996-2000



Source: Education Sector Strategy, 2000-2005. MOSTEC (1995).

Secondly, although transfers from the centre are earmarked, under the law local governments have the right to shift resources across expenditure categories in the budget, which allows the regional authorities to allocate transfers on education as they see fit. Local administrators argued that their ability to reallocate resources was important since they had the greatest knowledge of local problems, and were in a position to respond more quickly to such problems. But the evidence suggests that education is given least priority, and often transfers have not fully reached their target. This has happened during crises over wage arrears with transfers for education sector wages reallocated to other sectors, or funds were simply misused in illegal financial deals by the local political elite, especially during 1996-2000¹⁵⁷. The situation is compounded by the existence of several layers of sub-national government in Mongolia, with transfers for education cut on every layer. Thus budget allocations to schools in some *soums* have been cut twice, first, at the *aimag* level and then again at the *soum*

¹⁵⁷ Sh. Solongo, Interview, 25 November 2002.

level¹⁵⁸. According to the local education administrator in Dundgovi *aimag*, the local government halved the centrally allocated budget of Tg 36 mln. for pre-school education.

Thirdly, local governments lacked administrative, managerial and professional capacity for education provision. For instance, under the government streamlining of 2000, although local Education Centres are part of local administration, retrenchment seriously undermined the capacity of local governments to carry out education related surveys, provide methodological support to local schools and to policy information and awareness raising activities in the communities¹⁵⁹. At present, *aimag* education centres comprise on average 7-8 staff (176 in total in 2001), including the director, subject methodologists, pre-school, primary and non-formal education methodologists, and one for cultural activities.

The main functions of local administrations related to education include kindergarten and school restructuring and relocation activities, management staff training, setting up kindergarten and schools governing boards, teacher training, promoting non-formal education, funding and investment, monitoring and advising schools and kindergartens, supply of textbooks, and equipment and repair of school and boarding facilities. The delivery of these functions were constrained by the lack of budget and financial resources, management capacity, run down facilities and shortage of qualified teachers. The central government's view, on the contrary, is that local administrations lack enthusiasm and innovation in utilizing local resources and opportunities, and lack strategic planning to attend to the issues of educational quality, access and achievement.

Interviews with teachers and local education administrators confirmed that capacity of local education administrators was greatly eroded by frequent and comprehensive staff turnovers as a result of local elections. The situation has worsened, especially, during 1996-2000, when over half of local government education administrators were those who '*had never worked in the education sector neither in administration*'. Local elections affect not only political appointees and civil servants but also school principals. In 2000, staff turnover was 90 percent in social policy departments, in directors of *aimag* education centres and for school

¹⁵⁸ Battuvshin, Interview, 25 March 2002.

¹⁵⁹ N. Naranchimeg, Interview, 6 June 2002.

and kindergarten principals¹⁶⁰. Although in mitigation of this turnover, some pointed to increased professionalism: 84 percent were professional teachers, and 15.7 percent were - doctors, economists and engineers, of which 47.4 percent had postgraduate degrees and 21 percent were senior or consultant teachers. Notwithstanding this, the majority needed capacity development in modern management, including education management¹⁶¹.

Fourthly, schools were granted greater autonomy also in terms of human resources management. The implication of such a policy, which would cause no problems in other countries, was that in many cases the ability of local administrators to manage the resources was constrained by factors beyond their control. Since *aimag* education centres stopped centrally allocating teachers to schools '*almost every rural school experiences severe shortage of teaching staff*¹⁶²'. The reasons were manifold, including increased rural-urban migration and sudden 'desertification' of rural Mongolia since the collapse of its economic base, lack of investment and rundown facilities. Most importantly, poor pay for teachers does not attract qualified teachers into the profession. During the 2000-2001 school year rural schools were short of 903 teachers, and 8.6 percent of teachers were not qualified (Naranchimeg 2002). As a measure to attract teachers local administrators are offering various benefit packages. Thus, Undur Shireet *soum* Governor in Tuv *aimag* offers every teacher free cattle, heated accommodation and Tg 200,000 reallocation grant. Mostly, they recruit less qualified teachers. As of 2002, the percentage of unqualified teachers reached 16 percent in Bayankhongor, 14.3 percent in Dornogovi, 18.6 percent in Umnugovi and 18.3 percent in Dornod (MOSTEC).

Fifthly, decentralization of financial responsibility was carried out spontaneously without first introducing financial accountability and control mechanisms¹⁶³. The reports of misuse and misallocation of funds are abundant, thus affecting efficiency of education. School transactions are not transparent and financial reporting is weak. Some directors invent '*fictitious expenditures*' or '*claim double of what is actually spent on purchase of computers*'. Some see this as an inevitable cost, as without this '*nobody would have wanted to be a school*

¹⁶⁰ N. Naranchimeg, 6 June 2002.

¹⁶¹ N. Naranchimeg, *ibid*.

¹⁶² Itgel, Interview, 20 November 2002.

¹⁶³ The PSFMA was developed only in 1997

director. They received only Tg 20,000¹⁶⁴ a month, the amount, which they could easily make in two days in the local market. In Ulaanbaatar you can make this money in two or three hours¹⁶⁵.

Also, for local governments, supporting education was difficult due to dilapidated local infrastructure. We mentioned in section 7.5 that privatization of the centralised heating system made the utility costs unaffordable, especially for poor *aimags*: 'All schools and kindergartens resorted to coal burning stoves. Children work in cold and smoky classes. In *soum* centres, children study in sheepskin deli¹⁶⁶ and boots'. The numbers of auxiliary staff in rural schools such as stove man, plumbers and janitors have grown, while the teaching staff was rationalised. Since *aimags* vary in their capacity to raise tax revenues, the provision of resources to schools is also uneven.

There is anecdotal evidence that decentralization has increased administrative costs given the multiple layers of budget entities. There are about 272 central governors and budget entities dealing with MOFE for budget negotiations and fund release. The 22 *aimag* governors also deal directly with MOFE for budget allocations and over 350 *soum* governors deal with *aimag* governors for budgetary transfers. There are more than 7,000 budget entities at all levels of government. Therefore the anticipated benefits of decentralization in education were somewhat undermined by a multiplicity of budget strata, inefficient expenditure assignment processes, and a circuitous route for resource transfers from the centre to final beneficiaries.

Decentralization of education provision especially hit rural children hard. Some *aimags* and *soums* reduced 10 years of school (complete secondary education) to eight-year schools, unable to support them. Most local governments eliminated the boarding facilities for nomadic rural children, unable to meet their running costs. According to an assessment of 1999, the performance of rural children lagged behind children in the capital city (by 9.8 to 15.7 percent), and 73 percent of 24,791 illiterate children were rural children. The recent population survey revealed that of 44,891 illiterate people over 10 years of age, 70 percent

¹⁶⁴ approximately US\$15.

¹⁶⁵ Interview with local government official, 2 May 2002.

¹⁶⁶ traditional costume.

come from rural areas (NSO 2000). Enrolment in schools has dropped since the closure of many school dormitories. The closures have also affected the performance of children who now become to live with relatives or friends in *soum* and *aimag* centres. They performed 13 percent less than children, who live in dormitories or with their parents (MOSTEC 2000a).

Mongolia's legacy of centralised command and control, which suppressed local initiative and responsibility, assigning sub-national governments the mere role of implementers of directives from the centre, was recognised as a constraining cultural factor. The speed of economic and administrative reforms and attempts to reduce the deficit of the state budget have called for a too hastily implemented decentralization. Given the multi-layered and complex administrative structure in combination with the above factors associated with the Mongolian administrative culture, decentralization has resulted in a disrupted line of communication, and fragmented and compartmentalised authority and accountability across the MOSTEC, its local education authorities and sub-national governments. Education in rural Mongolia has deteriorated rapidly, creating a large rural-urban gap in the quality and equality of education.

7.9 Deregulation

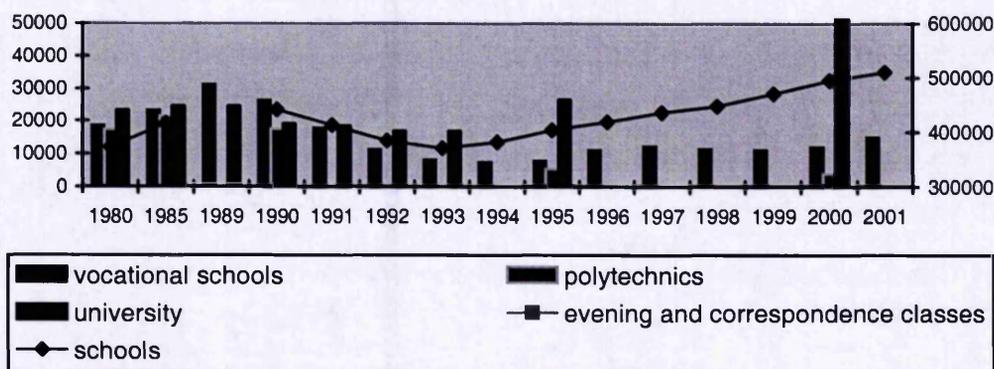
The most deregulated sector in education is the tertiary level. From 1991 higher educational institutions were granted full autonomy, private institutions were authorised, courses could be developed without having to comply with designated standards, fees for teaching were permitted, new branches could be established and, so forth. Technical University, the biggest in Mongolia with a student population of 18,500, a more than fivefold increase since 1990, was successful in attaining full autonomy. Deregulation provided the students with the right and ample opportunities to make free and independent choices over their professional career and to pursue their chosen fields of study unrestrained by entrance quotas.

But the heady excitement of the new deregulation policy soon gave rise to concerns that higher education was evolving in a rather chaotic way, which could imperil its quality. Firstly, the direct result of deregulation at this level was proliferation of institutions of higher

education. Hundreds of new faculties were established, programmes increased from 150 to 490, 170 private universities have emerged, and a multitude of outreach branches of higher education institutions mushroomed. The Mongolian National University, which had only 2600 students, was split into several semi-independent self-sustaining schools. By 2002 there were 178 institutions of higher education in Mongolia (8 public), of which only 36 were certified (14 private). This is an average of one higher-level institution for every 2,200 person between the ages of 17 and 29. Concerns were raised about an economy-wide inefficient use of scarce resources. Re-centralization was called for, to free up resources and increase quality as these facilities are rationalised and the centre oversees quality (ADB 1994b).

Secondly, an improper mix of qualifications and degrees caused serious concerns. By 2003 there were too many graduates with degrees in economics, law and foreign languages, while few students chose to study technical and science degrees, which are crucial if Mongolia is to enter the global market on equal terms. This also had an effect of precipitating an already oversupplied 'market of unemployed graduates' in addition to problems of maintaining standards alongside equity.

Fig. 7.5 Number of Students, 1980-2001



Source: MOSE, Education in 1980-1995, Statistical Review, Ulaanbaatar, 1996.
 Education Sector Development Programme, 2001 Report.
 ADB 1994

Thirdly, the quality of higher education has become an issue as institutions vary greatly in quality, prestige, range of subjects and student enrolment. Many are suspicious of the

quality of teaching in private universities, referring to their weak professional base (in terms of real motivation) and lack of institutional and academic tradition. As businesses, they are not selective regarding students, offering mainly law, economics and language training. A student defined the ethos in his university: *'because it is a private property its administrators treat us not very well. We can clearly see the value of money here'*¹⁶⁷.

Also, there has been an increase in students with postgraduate degrees, as all the institutions had their own degree awarding committees which is seen by some as a factor contributing to the degraded quality and prestige of postgraduate degrees¹⁶⁸.

Freedom of choice involves costs, which was well understood by students (Table 7.6). Tuition fees and living expenses were prime constraints for students. Their situation is exemplified when the fees do not match with the quality of education offered: *'some universities make business on our educational needs'*. But some were more tolerant given the *'situation with university funding as the state was not in a position to finance them'*. Students of private universities pointed to inadequacies in the learning environment (lack of library resources, computers and access to information) and in teaching quality. The state provides loans for students from poor families, on average 500 students (approximately one in two) enrolled in accredited universities each year¹⁶⁹. But the number of accredited universities was only nine in 2002 and only few private universities met quality standards.

Table 7.6 Response of students of higher education to the question 'What are the issues that you encounter as a student and that constrain your studies?' (N = 38)

Issues	N	percent
Poor prospects for employment	12	13.6
Student cards are not issued for part-time students hence no access to public libraries and discounted public transport	4	4.5
Money (high tuition fees, expensive student accommodation)	32	36.4
Quality of training (curriculum too general, low professionalism of teachers)	10	11.4
Language skills	4	4.5
Computer skills	2	2.3
Poor facilities and learning environment	6	6.8
No part-time jobs for students	6	6.8
Conditions at home	2	2.3

¹⁶⁷ Focus group meeting with students, 29 October 2002.

¹⁶⁸ Jadambaa, Interview, 28 March 2002.

¹⁶⁹ S. Togmid, Interview, 18 December 2002.

Conditions in society and quality of life	2	2.3
Lack of prospects for gaining wealth (well paid jobs)	8	9.0
Total	88	100

Fourthly, the issue of greatest concern for everybody was the rise in the pool of 'unemployed graduates'. Poor prospects for employment was the second among student constraints: 'Today no matter how hard you learn you have little chances to get a job if you have no contacts'. The number of law graduates reached 3,000-4,000 while the demand for this profession was only around 700 for the whole country¹⁷⁰. The university degree ceased to be a determinant factor of life chances - over 30 percent of the graduates from the prestigious Technical University in Ulaanbaatar were unemployed¹⁷¹.

Student numbers have more than doubled since 1990, from 24,506 to 54,444 in 2000 (Fig. 7.5), mostly due to doubling of enrolment in private universities (MOSTEC 2000b). On average, 40 percent of school leavers entered higher education, which is 20 percent of young people aged 18-22. In 2002, 80 percent of the adult population in Dornogovi *aimag* had a university education, including the unemployed. The rise in student numbers in higher education was, not least, a direct result of the collapse of the vocational education and training (VET) system and lack of employment opportunities in the labour market¹⁷². Many VET schools had close links with enterprises that now no longer exist or can no longer afford to support these schools, receive and train apprentices, or employ graduates.

Today, 50 percent of the unemployed are young people aged between 16-22. As of 2000, every fourth unemployed person in Mongolia was a graduate of secondary and upper secondary schools (aged 15-19)¹⁷³. These figures indicate the difficult state of the Mongolian economy and tightened competition in the labour market. The vicious circle was created – the more the opportunities for new entrants to the labour market shrink, the more the number of young people willing to obtain graduate degrees rises, and hence, the fewer chances for them to find employment in a more competitive market.

¹⁷⁰ Jadambaa, Interview, 28 March 2002.

¹⁷¹ D. Badarch, Interview, 11 December 2002.

¹⁷² Focused group discussion with students, 2 November 2002.

¹⁷³ N. Naranchimeg, Interview, 6 June 2002.

7.10 School Autonomy

Decentralization at the level of institutions translated into increased autonomy of public educational entities, and setting up independent governing boards at all levels of education (Tables 7.7 and 7.8)¹⁷⁴.

Table 7.7. Responses of the teachers to the question ‘Have there been introduced major organizational and structural changes, reforms in your school over the last decade?’ (number of responses = 200)

	Yes (percent)	No (percent)	Don't Know (percent)
Rural school teachers	80	16	4
Urban school teachers	98	1	1

Table 7.8. Responses of the teachers to the question about the types of management and structural reforms at school (number of responses n = 200)

Key initiatives	N	percent
School governing board created	158	19.4
Appointing principals by the governing board	90	11.1
Staff rationalization and redundancy	102	12.5
School merger and clusters	48	5.9
Internal school restructuring (to increase the number of students in a class)	44	5.4
Teacher recruitment (open examination)	42	5.2
New teacher incentive systems	28	3.4
Performance evaluation (attestation and examination)	58	7.1
Lease contracts	62	7.6
Management contracts	8	1.0
New position of managers	74	9.1
New organizational entities and units created (subject teachers' clusters, methodological cabinets etc)	100	12.3
Total	814	100

Table 7.7 shows that setting up school governing boards and appointment of principals by the boards were the major innovations at the level of schools. Managerial autonomy granted to school governing boards the powers to appoint and dismiss school principals, and to

¹⁷⁴ This and the following sections illustrate the impact of decentralization, rationalization and privatization policies in education based on the findings of the questionnaire survey carried out among 210 secondary school teachers and focus group meetings with local education administrators, teachers and students.

principals the flexibility over decisions on the internal structure of schools (12 percent of schools covered), as well as on the personnel management issues. School autonomy allowed flexible teacher recruitment, promotion and remuneration. School management was strengthened through introducing the new position of a school manager. Many schools engage in contractual relationships with private businesses by renting their floor space. The MOSTEC had no direct role in school management or staff appointments. Internal performance evaluation systems, such as annual teacher attestations and examinations, were introduced in some schools and salaries were supplemented by new incentives depending on performance. Teachers were allowed to conduct extra-curricular classes and charge fees from students. Perhaps the most important effect of school autonomy was the introduction of the management paradigm into the Mongolian education sector. The Consortium of Universities was established as a quasi-independent body to coordinate the universities, and some believe that *'very soon universities will become fully autonomous from MOSTEC and the Consortium will be a true governing and regulatory body'*¹⁷⁵. Since 1997, over 10,000 teachers, 8,000 school principals and some 1,000 educationalists and academics were trained in management under the ESDP. The management paradigm introduced the strategic and business planning exercise into schools.

Table 7.9 Responses by teachers to the question 'In your opinion, how successful have been the changes and the school reforms (percent)? (n = 184)

	Very successful	Successful	Neutral or don't know	Not quite successful	Unsuccessful
Rural school teachers	7	9	29	24	31
Urban school teachers	4	11	23	66	28

The critics argued that this model *'borrowed from the US and other western countries was the least successful model to emulate'*. Firstly, under the 1995 and 1998 Education Laws, school boards were granted full decision-making as regard to school policy. But what was overlooked is the fact that they were not legal subjects, and as such they were not accountable, neither to MOSTEC nor to the school. Many commented on the ease with which school boards exercised their powers over appointments, disrupting normal operation of schools: *'the*

¹⁷⁵ A. Ariun, Interview, 5 May 2002.

*only real work they have been doing is arbitrary appointments and re-appointments of school principals as suits them*¹⁷⁶. It was found that, as a rule, local Governors were represented on most school boards, and therefore every change in government was followed by re-appointments of school principals. At the tertiary level, the board is chaired by senior politicians, for example: Mongolian National University - S. Tumor-Ochir, SIH Speaker; State Pedagogical University - Altai MP; Technical University - Tsanjid, Minister, MOSTEC; Medical University – S. Erdenesuren, Vice Minister, MOSTEC.

Secondly, the capacity of newly introduced school governing boards was inadequate, according to the educationalists and teachers. As a core institution of self-governance, their prime role is to promote broad participation by various stakeholders and to ensure autonomy of schools. Instead, many saw schools boards as a formal body with little interest in improving the quality of schooling. The reasons were inertia combined with the legacy of command administration, when the local initiative was stifled and main decisions were made at the centre: *'During socialism the state policy making was in the hands of the MPRP, but they were at least implemented. Today, the implementation is not happening'*¹⁷⁷. Also, there is evidence to suggest that implementation of many reforms was piecemeal, with focus on 'getting things done' rather than 'doing things properly'.

Thirdly, teachers expressed their concerns that school autonomy made teachers overly dependent on the principals, who were entrusted with full decision-making over personnel and other issues. There were reports of increased nepotism by some principals, who make arbitrary decisions with regard to personnel recruitment, promotion and dismissal, especially in the cases of schools which have not developed local democratic and accountability mechanisms such as various teacher's councils. It should be mentioned that trade unionism is very weak in Mongolia and the existing unions of teachers *'have little role in protecting and reflecting the needs and interests of the profession'*¹⁷⁸.

¹⁷⁶ Shurentsetseg, Interview, 4 April, 2002.

¹⁷⁷ Jadambaa, Interview, 28 March 2002.

¹⁷⁸ Focus group meeting with teachers, 20 March 2002.

7.11 Rationalization and Restructuring

Rationalization and restructuring of the sector was a centrepiece of efforts to increase the sector internal efficiency and sustainability of education finance. They were carried out through school closures, a freeze in constructing new school facilities, school mergers, staff rationalization and redundancies, multiple subject and multiple grade teaching, and curriculum reforms (rationalization of curriculum). According to its donors and the Project Director, the measure produced 'diverse outputs'. It 'improved the efficiency of education delivery and stabilized education finance' (ADB 2003:3). At the sector level, the extensive network of VET schools was revamped and the VET curriculum was partly infused into secondary schools in the form of life skills training. We will look in more detail into the rationalization of the secondary education as perceived by schools and teachers.

The school mapping exercise was carried out under the ESDP in 1997 to identify the scope for reducing the number of schools and increasing efficiency in the use of school facilities. It was anticipated that the mergers or closures of schools would 'lead to improved efficiency, cost-effectiveness, quality and sustainability of education'. Of 217 schools identified, 161 schools were restructured by June 2002. As a result, some schools were closed and school clusters - 'complex schools' with centralised management and support services - were established through mergers of 4-5 schools. Also, 'regional central schools' were developed in districts with the capacity to disseminate the ESDP-training to other schools. These were formed by merging together several schools to accommodate some 6,000-10,000 children of primary, middle and junior grades. Rationalization also involved staff rationalization¹⁷⁹ and attrition by freeing 8,140 teachers from secondary schools between 1997-2000¹⁸⁰. At the unit level, rationalization involved a review of the structure of schools and the curriculum. Especially, rationalization was a priority for rural schools, where the number of students and constrained budgets could not justify a full complement of specialised teachers at each grade level.

¹⁷⁹ The ESDP entails 50 percent reduction in education sector staff positions (ADB 2003).

¹⁸⁰ R. Bandii, Interview, 18 March 2002.

The impact of rationalization on schools could clearly be discerned from interviews and questionnaires (see also Tables 7.9, 7.11). The direct benefit for schools have, reportedly, emanated from the training and investment component of the ESDP. To encourage schools, training and staff development in management and curriculum reform were offered by ESDP to participating school principals and teachers, and new science laboratories, computers and other equipment were provided. Some principals reported to have had some savings on their wage bill as a result of staff rationalization and redundancy measures, which were used to supplement 'by little' the salaries of the remaining staff '*depending on their performance*'. Otherwise, as many claim, the reforms had little visible impact on quality and efficiency. Quite the contrary: reports evidencing negative impacts of rationalization exercises were numerous on the ground.

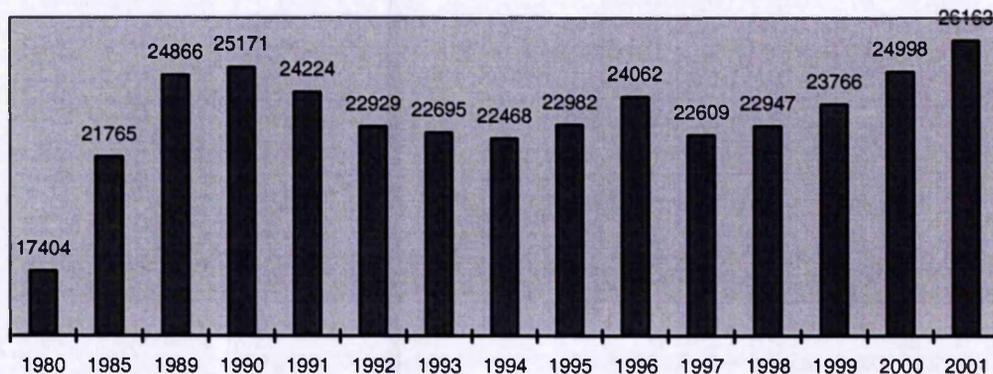
Foremost, an increase in student-teacher ratio through school mergers and the halt in educational infrastructure development led to overcrowding of schools, and created problems of managing 'hyper-schools' for their principals. The feasibility of hyper-schools in terms of pedagogical correctness was also questioned, where not only teachers could not name their students, but also teachers did not know their colleagues. According to the principals, cluster schools were not new to Mongolia. To increase economies of scale, the leaders tried 'hyper-schools' in the early 1960s. But the resultant deterioration in the quality of education had not, seemingly, justified its economic rationale. During interviews, several principals suggested that restructuring schools to create separate primary, secondary and upper secondary schools would be more feasible.

By 2002, class sizes in most schools in Ulaanbaatar became unmanageable, let alone suitable for conducting training activities. Population growth is still high relative to other countries in the region (1.4 percent per annum), although it decreased twofold compared to 1980-1990. All 20 school principals reported that the number of children in schools (between 1,397-2,430) had outpaced the school capacity of 920. Of these schools, the majority (15) had more than 2,000 students. In one school additional space was created through converting school lounge areas into 23 classrooms. Three principals, who represented cluster schools, reported to each have more than 6,000 children under a single roof. Overcrowding was an acute problem for schools in the poor outskirts of Ulaanbaatar. Large inflows of rural

migrants since 1990 (by 2002 almost half of the entire population lived in the capital city) forced many schools in these areas to work in three shifts¹⁸¹. There are reports that, these schools, desperate, refuse to accept more children of rural migrants, which means that many children will be deprived of their right to education.

Secondly, besides the fact that rationalization did not bring about sizable budget savings¹⁸² to schools, the measure also involved direct costs in the form of redundancy payments to teachers to encourage voluntary redundancy. Tg 1 mln. (US\$800) each was offered as compensation. This amount was very attractive for impoverished teachers and 8,000 teachers were made redundant, implying that the least qualified teachers would be affected. But the reports suggest that, as a rule, the best teachers were more inclined to leave the profession for 'business' and come back after three years: *'most teachers came back and the net effect was zero if not negative'*¹⁸³. The general perception about redundancy programmes was that they have not produced efficiency gains as *'they were not based on thorough research and had no positive results'*. The whole measure was seen as *'waste of money'*¹⁸⁴ (see Fig.7.6).

Fig. 7.6 Number of Teachers, 1980-2001*



Source: Ministry of Science and Education, Statistical Analysis, 1980-1995
MOSTEC, 2001

* Includes private sector data

¹⁸¹ Shurentsetseg, Interview, 4 April 2002.

¹⁸² Lkhagva, Interview, 18 November 18, 2002

¹⁸³ Focus group meeting with 'cluster-school' teachers, 20 March, 15 April 2002.

¹⁸⁴ Lkhagva, Interview, ibid.

Although curriculum and staff rationalization, when teachers were required to teach multiple subjects at multiple grade levels, may have produced short-term efficiency benefits, in the longer run this measure was seen as detrimental to the quality of teaching and learning. Teachers hardly had time to prepare properly for the classes, or time for research and self-development. Many felt that they were simply '*converted into teaching machines*'. As one student reported, '*In order to gain full teaching credits lecturers are forced to teach several subjects, which they are not trained for. Teaching in this case is appalling*'¹⁸⁵.

Consistent with the public administration reform agenda and the decrease in social sector funding, teachers' salaries have been frozen since 1990. This measure, although it may have aided macro-economic stabilization, had affected the morale and social status of the teaching profession since their work is valued '*less than copying on the Canon*'¹⁸⁶. Many able teachers have been leaving the profession to find more remunerative jobs in the newly emerged private sector or in cross-border suitcase trading. According to MOSE, in the three years between 1990-1993, 2,703 teachers left the profession, of which 1,529 left during 1992-1993 alone (Fig 7.6). In 2002 3,380 qualified teachers were needed for schools across the country. Occasional salary increases did not keep pace with inflation running at 10 percent per annum, eroding teachers' real incomes '*since last year prices of 33 items increased by 13-45 percent. Young teachers receive Tg 28,000*'¹⁸⁷ a month. *Educated and teachers with high potentials will not work for this salary*'¹⁸⁸. The situation had a direct impact on the quality of education: '*The quality of teaching staff has deteriorated rapidly since transition. Inadequate pay and incentives for teachers forced many talented teachers to leave the profession*'¹⁸⁹. Those who remain, supplement their incomes through other paid work (such as extra-curricular teaching, evening tutorials or exam preparation), which reduces their time for core teaching activities let alone non-classroom teaching activities such as class preparation, correction of homework, availability for school planning meetings and in-service education.

¹⁸⁵ Focus group meeting with students, 29 October, 2 November 2002.

¹⁸⁶ D. Badarch, Interview, 11 December 2002.

¹⁸⁷ Approximately US\$23.

¹⁸⁸ Focus group meeting with the principals, 2 April 2002.

¹⁸⁹ Itgel, Interview, 20 November 2002.

The survey showed that teachers face many difficulties in fulfilling their responsibilities, which stem from three sources (Tables 7.10 and 7.11). Firstly, all teachers face problems related to lack of investment in the sector (low wages, lack of facilities and lack of training materials). Examples of these are: a geography teacher uses 3-4 textbooks for the class of 50 children, teachers mostly purchase paper and other materials to create their own teaching materials, the school library had no books and another rural teacher had no globe or map to show children countries. Low pay, overcrowding in urban schools, and a deteriorating learning environment for children were main problems in teaching (38.9 percent). There were comments about the degraded skill and professionalism of teachers due to lack of incentives, material (low pay) and moral (environment). The second group of issues were socio-economic in nature, where the quality of education is affected by poverty, low living standards, low parents' attention to their children, and low motivation of children themselves (16 percent). Many teachers observed that poor and disadvantaged children, and also the disabled, are in danger of complete exclusion from the system. Questions were raised about the foregone opportunities of talented children, who were not receiving due attention and support. Finally, the major problem for teachers is poor management of schools (45.1 percent), such as lack of transparency and accountability, poor work of school governing boards, lack of participation of teachers in decision-making and inadequate personnel policy in terms of recruitment, promotion, staff development and work incentives. Teachers' views on school autonomy were mostly negative - they are now more dependent on school directors, who, in their part, are also dependent upon school governing boards. Practically, teachers were not represented in the governing boards and had little influence in the decisions. A teacher commented that '*in the last ten years we have seen six directors*'¹⁹⁰, a situation which demoralises staff and breeds insecurity. Rural teachers reported that lack of information was the main problem, when information reaches them with '*the gap in two years*' and lack of opportunity for in-service training: '*city and aimag centre teachers are more likely to benefit from training, usually we are not told*'¹⁹¹. Also, the new financing by norms per student affects rural school funding, as the student-teacher ratio is very low. In overall, teachers' views were that reforms to improve the situation in the sector have not been effective, and changes have been too slow with little progress made in terms of improved quality. The large

¹⁹⁰ Focus group meetings with teachers, 7 December 2002.

¹⁹¹ Focus group meeting with rural pre-school teachers, 10 April 2002.

majority of respondents (92 percent) answered negatively to the questions about the students' learning achievement and learning environment.

Table 7.10 Responses given by the teachers to the question about the most common problems and constraints in their work (respondents N = 201).

	N	percent		n	percent
Low wages	76	5.96	Lack of management skills of school administration	14	1.1
Poverty of children	44	3.45	Delays in wages	4	0.31
Work overload	50	3.92	Lack of transparency in decision-making and implementation	40	3.13
Lack of training opportunities	30	2.35	Low morale and ethics of managers (favouritism, unjust treatment, nepotism etc)	32	2.51
Lack of and poor school facilities	96	7.52	Lack of support from management	32	2.51
Lack of training materials, equipment	100	7.84	Teachers have little role in decision-making	74	5.8
Low student motivation	54	4.23	Low cooperation and team spirit	14	1.1
Too many children in class	110	8.62	Bureaucratic red tape	42	3.29
Low achievement of students	40	3.13	Uncooperative local government (red tape, irresponsibility etc)	14	1.1
Inadequate curriculum	24	1.88	Inadequate management and organization structure (school governing boards)	40	3.13
Lack of responsibility of school administration	26	2.04	Lack of parents attention to their children	106	8.31
Poor personnel policy (lack of transparency in recruitment)	42	3.29	Constraints due to school finances	40	3.13
Incentive system not related to performance	32	2.51	Lack of accountability	66	5.17
Lack of information	34	2.66	Total	1,276	100

Table 7.11 Consolidated responses

Constraints	N	percent
Financial and motivational: Poor wages, facilities and supply of materials	496	38.9
Social: poverty of children, low motivation and parent participation	204	16
School management (factors which depend on management)	576	45.1
Total	1276	100

The cumulative impact was that the best teachers have been leaving the profession in search for better opportunities. Thus, the school which specialised in teaching mathematics and which trained 'brains' for national and international Olympiads suddenly lost many of its

qualified teachers: *'Almost all teachers left and established their own private school to charge fees'*¹⁹². This has implications for the equality in education.

The problem of teachers was more acute for rural schools. Lack of qualified teachers in remote *soums* prompted parents to send their children to *aimag* centre schools with the result that *soum* schools had fewer students (thus less funds) while *aimag* centre schools were overcrowded¹⁹³. In Dornod most rural schools had 10-12 children in a class, whereas the *aimag* school for 650 children had to accommodate 2,500 children, and was itself short of teachers¹⁹⁴. The school works in several shifts, the latest finishing at eight in the evening. They referred to the ESDP as a 'stupid' project, since it offered teachers Tg 1 million while asking them to leave the school.

One of the many implications of low wages for teachers is its gender dimension, as many teachers as a rule are women. Mongolia also rates high on the number of single mothers: *'My salary is Tg70,000, which is hardly enough for survival. Yet, I am the highest paid of 59 teachers, of which 18 are single-mothers'*. The policy-makers' advice to teachers was to show initiative and entrepreneurship: *'Now we are providing food for school dormitories. Rural teachers can grow vegetables, cattle and sell to the school. They should not look upwards and wait until the state comes to help. We live in a market economy'*.

Overall, the findings of the survey, numerous interviews and focused discussions with central and local level educationalists, school principals and teachers suggest that their perceptions in relation to the impact of reforms were quite mixed if not negative (Table 7.9). Openness of education, diversity of its forms, existence of support for reforms, a recent decrease in school dropout rates, and parents paying more attention to their children's education were seen as positive reform outcomes. Increase in the number of poor quality private schools, neglect of child socialization, morale and child upbringing issues, low performance of children, focus on preparing for university entrance examinations and neglect for other dimensions of child development and schooling, window-dressing, e.g. pre-

¹⁹² Itgel, Interview, 20 November 2002.

¹⁹³ There are usually 1-2 complete secondary education schools in every *aimag* centre, depending on the population.

¹⁹⁴ Focus group meeting with rural teachers, 20 March 2002.

occupation with changes in the form and not in the substance, inadequate financing of education and run down facilities and infrastructure and school overcrowding were seen as negative outcomes of the reforms.

7.12 Privatization

Privatization began with removing obstacles and barriers to private sector participation in the education sector through decentralization and deregulation policies. Sharp competition from private providers developed relatively quickly. The opening up of the system to competition stimulated a proliferation of private schools, which were to be subsidised by government although this never happened. The private sector growth occurred overwhelmingly in urban areas and by 2002 there were 170 private universities. The ADB/ESDP requires also the privatization of public higher education institutions, including universities. Thus, the Institute of Economics and Finance was privatised first in September 1997 under the 'management contract' and the Humanities University was privatised in 2003. The plan stalled in the face of fierce opposition by the universities themselves despite the announced Social Sector Privatization Programme (2002). Under the Programme the wholesale privatization of the universities, colleges, hospitals, health centres, theatres and other cultural establishments will be carried out '*since private universities have shown that they can be fully self-sufficient*'¹⁹⁵.

The Government claimed that the pros and cons of social sector privatization had been well analysed¹⁹⁶. According to the proponents, privatization of social sectors will create competition in the sector and boost market forces. This argument is supported by the fact that '*already universities have been working according to market principles since 1991*' and that '*now they are well prepared for their full privatization*'¹⁹⁷. The opponents of this policy, on the contrary, are concerned with association of recent experiences with privatization of the enterprise sector and state farms. Also, there are competing views regarding the quality of teaching in the newly emerged private universities and schools. According to some the

¹⁹⁵ S. Togmid, Interview, 18 December 2002.

¹⁹⁶ Meeting of citizens with Gandi, MP, 17 December 2002.

¹⁹⁷ Senior MOSTEC official's interview to Mongol TV, 18 November 2002.

environment in private schools is more conducive to learning due to the small number of students: most private schools had classes of maximum 20 students compared to 47-58 students in state schools. In addition, private schools were much smaller in total size (700 students)¹⁹⁸.

At the tertiary level the case of management privatization of the Economic College is regarded a success¹⁹⁹. The anecdotal evidence suggests that it receives much financial support from 'big' businesses. Renamed the Institute of Finance and Economics (IFE), it was part of the World Bank assisted Social Sector Privatization Project²⁰⁰. During the trial period (1997-2000), the university operated under a management contract, e.g. independent governance and budget '*without subsidies from the state*'. It is also a major training institution for the emerging market professions such as accounting, commercial banking and securities markets, and attracts a large number of students. Its Board of Governors comprises key executives of the business community, the former Prime Minister for the democratic coalition government, its ex-Finance Minister and many other key officials in the 1996-2000 government. The university was also host to the IRIS team since 1990, which advised the government on transition reform and was in the '*forefront of the most transition economic policies, including privatization and taxation*'. It has adopted academic planning and policies that are similar to North American universities²⁰¹.

Nevertheless, today 70 percent of all teachers and students are in the public sector. The old mentality of distrust in everything 'private' still prevails, especially in social sectors such as education and health. The general perception is that 'private schools charge too much tuition fees', 'educating children is not compatible with business', 'they are draining out best teachers from state schools', 'concerned more about profit-making rather than true education'²⁰². Thus, math teachers pointed to the fact that private school math teachers do not attend in-service trainings, even those organized by the Mathematical Association. Many state school teachers responded negatively to the question whether they would have wanted to work

¹⁹⁸ Itgel, Interview, 20 November 2002.

¹⁹⁹ Batrinchin, Interview, 2 April 2002

²⁰⁰ Batjargal, Interview, 29 March 2002.

²⁰¹ Batjargal, *ibid.*

²⁰² Teachers' comments to the questionnaire survey on private education and privatization in the sector.

in a private school, basing their arguments on potential loss of professional freedom and dependence upon the school management. Pre-school education system was since long planned for full privatization. There were reports that in an anticipation of this measure, there has been spurt of interest in positions of kindergarten principals: *'in our district many kindergarten principals were changed and their posts were taken up by spouses of MPs and other influential people'*²⁰³.

All eight state universities are proposed for privatization. One has been privatised already, the 'Humanities University'. But due to opposition, the process has been planned carefully and gradually. Until recently the universities were provided with subsidies for meeting recurrent costs such as electricity, water and heating. A recent decision by the government to introduce full cost-recovery for universities as a first step toward full privatization met with unprecedented opposition. The budget for one university was cut from Tg 1.9 billion in 2002 to Tg 1.2 billion for 2003²⁰⁴, making it unable even to meet its recurrent costs of Tg 1.9 billion.

The government's privatization plan was criticised by state universities in a recent poll *'no one supports it'*²⁰⁵ as without government subsidies they *'have to raise tuition fees'*. There were reports of parents, university staff and students having sent petitions to the SIH. One of the arguments against privatization was the support that state universities received from overseas universities: *'I brought in science equipment worth US\$ 7 million. I believe that foreigners gave me these for free only because the Technological University belonged to the Mongolian state'*²⁰⁶,

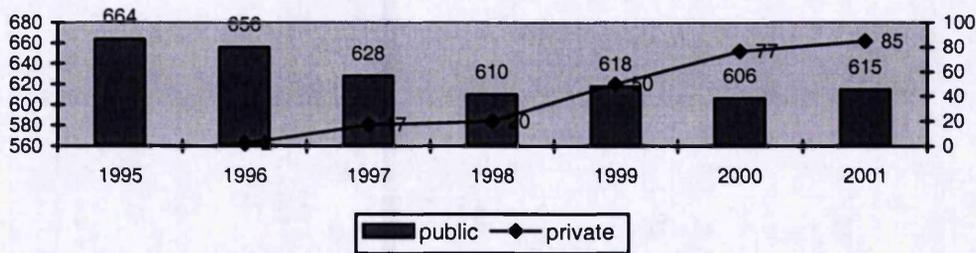
²⁰³ G. Dulamjav, Interview 10 June 2002.

²⁰⁴ S. Togmid, Interview, 18 December 2002.

²⁰⁵ S. Oyun, Interview, 23 May 2002.

²⁰⁶ D. Badarch, Interview, 11 December 2002.

Fig. 7.7 Public and Private Schools, 1995-2001



Source: Education Sector Development Programme, 2001 Report.

According to key interviewees many of the reforms in the education sector overlooked underlying conditions. To name a few problematic reforms: introduction of the credit system, tuition fees, autonomy of schools and universities, accreditation and so forth. These innovations work in an ideal situation, when the educational institutions are able to provide at least a modest learning environment. Even basic services and conditions that entitle them to charge tuition fees from students were not provided such as libraries, computers and other facilities²⁰⁷.

The ESDP also carried out measures to introduce cost sharing in secondary education textbook publishing, and decentralization of secondary education textbook distribution. Since 1998, all contracts for textbooks under the Project have been tendered to private firms. The books were sold to students and part of the cost of production was recovered. The implications were profound. Firstly, removal of state subsidies for textbook production and contracting it out to the private sector was especially devastating given the high levels of poverty and precipitating inflation. Textbooks became unaffordable for the many: *'For instance, the textbook produced by the University of Science and Technology 'Mathematics for Engineering' costs Tg100,000²⁰⁸ and this is when the state does not give a mungu to libraries barely able to pay salaries for lecturers'*. Secondly, commenting on the benefits and flaws in textbook outsourcing, some teachers pointed to the degraded quality of textbooks in terms of the integrity of curricula content:

²⁰⁷ Tuition fees are high, equal to the entire annual salary of a civil servant.

²⁰⁸ Approximately US\$100.

'Before one or several individuals were specialised in producing Math textbooks, some for middle and upper and others for primary levels. Today many people are involved in producing textbooks for various individual grade levels. This had negatively affected the quality of textbooks. There is less coherence and unity of the material and big gaps between grades²⁰⁹'.

Teacher training has also been decentralised and a voucher system introduced to introduce competition in this field. For rural teachers they had little value, as all teacher-training institutions were centralised in the capital city and teachers had little incentive to spend on travel and accommodation costs. The introduction of vouchers has largely excluded rural teachers from professional development and training opportunities²¹⁰.

7.13 Conclusion

As the largest public sector, the education sector has seen many reforms since transition. The systemic reforms in the sector were carried out nationwide and rapidly, without prior testing and piloting. Administrative and civil service reforms focused on many dimensions of Mongolia's transition: freeing education from communist dogmatism, linking it to the requirements of the market economy, and aiding macroeconomic stabilization among others.

Administrative reforms in the sector translated into sharp contraction of government spending on education, deregulation, decentralization, cost-containment and rationalization of the sector (institutions, curriculum, personnel and expenditures) in the light of the new role that state had assumed in the conditions of a market economy. The reforms, based on the new public management paradigm, sought to introduce market mechanisms of production, allocation and distribution of education and increase the sector efficiency and strengthening its labour market linkages, introduction of cost-recovery, contract culture and new management principles. The reforms were carried out as part of structural adjustment and macroeconomic stabilization reform packages.

²⁰⁹ Itgel, Interview, December 10, 2002.

²¹⁰ Chimgee, Interview, 27 September 2002

In terms of the policy process, according to the principle of separation of policy from administration in light of the changing role of the state in the provision of public services, MOSTEC had assumed a policymaking responsibility. In parallel, civil service reforms aimed at creating a core professional civil service immune to politics. The rest of the sector was responsible for policy implementation. Decision-making was decentralized and responsibility for education provision was delegated fully to local government administrations. Deregulation of the sector allowed the emergence of various providers in the education sector, including private sector provision. The institutions in the sector were granted varying degree of autonomy, the higher education sector being the most deregulated and with eight universities awaiting their full privatization under the Social Sector Privatization Programme.

The research found that the policymaking and implementation capacities at all levels, including the Ministry, local governments and implementing units, had been constrained by several factors. They included: 1) political instability and frequent changes in government, top and mid-level leadership and arbitrary dismissals of government servants, including school principals; 2) positive effects of policies to increase local level capacity to provide education were counteracted by, foremost, austerity measures in the sector which deprived it of any prospects for investment; 3) separation of politics from implementation increased the gap between policy and implementation by reducing the accountability of policy-makers for their policies, while inhibiting the capacity of local level institutions to influence policy-making; 4) increased workload of government servants, at central and local levels as a result of civil service reforms and sector rationalization; 5) demoralization and corruption of government officials, influenced by political depredations and civil service salary freezes, and demoralization of the teaching profession due to low pay; 6) rapid implementation of reforms in an extremely unfavourable economic environment. This meant that, management decentralization (including school autonomy) in the education sector was carried out rapidly, without capacity building of local administrations and against the background of the collapsing economic base of rural Mongolia, and 7) recession, unemployment and widespread poverty affected the motivation and performance of students and parents' attention to their children. Therefore, we see a gap between the design of the programme and its results as demonstrated in its application to one major public service.

The main benefits accrued to Mongolia's students have been internationalisation of education, diversification and freedom of choice. But at the personal level the above freedoms were somewhat constrained by the economic and social affluence of individuals. The combined effect on education provision was deterioration of standards along all three dimensions – quality, enrolment and equality. The quality has deteriorated as a result of more than threefold reduction in education spending and associated rationalization of schools (increase in student-teacher ratio) and lack of interface between policy and implementation. Enrolment fell rapidly in the beginning of transition, with rises in dropout rates, and access to education depending on the economic affluence of parents, widening social stratification and increasing inequality. Especially, it hit hard rural children, since decentralization of education funding, closure of school dormitories for herders' children and economic hardships in rural Mongolia led to widening gaps between rural and urban education provision. Marketization of the sector was not followed by putting in place an appropriate regulatory framework to manage market externalities. This led to an improper mix of professional training, gender imbalances (too many girls in schools and in tertiary education), and poor quality of training in private schools and universities. Overall, we argue that education as a human right ceased to be a priority sector during Mongolia's transition, with a worsening of the distribution of educational opportunity along geographical, gender and social dimensions.

CHAPTER EIGHT

CONCLUSION

This research sought to provide perspectives on the 'new public management model' as a policy option for improved public sector management and effective public service delivery, and to contribute to broader debates on the introduction of market mechanisms into social, political and administrative domains, based on the experience of a small country - Mongolia. The analysis is of Mongolian experience with NPM reform aimed at understanding the position of Mongolia in relation to international experiences in reforming the public sector, locating the analysis in a wider framework of Mongolia's transition to democracy and to a market economy, and related processes of change in the country's economic, social and political developments. The key question addressed was: what has been the process of implementation of public administration and civil service reform in Mongolia? And what have been its effects to date? The research, then, involved an analysis of the reform policy formulation, implementation processes, and factors that influenced the reform process. It attempted to assess the outcomes and effect of public management reforms on public sector performance and public service based on the case of the education sector.

The presentation was three-fold: first, Chapter 2 examined theoretical tenets underpinning public sector reform in general and 'new public management' as a reform model in particular, focusing on the key analytical tools employed in this framework. The chapter also reviewed the practice and international experience with NPM reform in developed and developing nations. Second, Chapters 3 and 4 provided an overview of the economic, social and political contexts for Mongolian reforms, to reveal external and internal background factors that influenced both the reform policy choices and the policy implementation process. This was a longitudinal presentation of the prevailing contexts prior to 1990 and after 1990, when the transition reform was launched. Third, having looked at reform strategies, policy, legal and institutional frameworks in close relationship with broader economic and political reforms in Chapters 5 and 6, Chapter 7 presented an illustration of how the NPM reforms have impacted upon the performance of the public sector using the example of the education sector

in Mongolia. The focus was on the qualitative impact of reforms on policy-making based on the performance of MOSTEC and the quality of and access to educational services.

Economic Reforms

In rapidly changing regional and international conditions Mongolia has been forced to redefine its place in regional and global terms. Foremost in this regard was the need to adjust to the sudden decline and collapse of the Soviet Union, a major economic partner and supplier of aid. In political and economic terms, policymakers in Mongolia have had to adopt a more pragmatic approach to reform, including the adoption of multiparty politics and market-based economic reforms. Responding to these changes has not been altogether easy.

Since the adoption of the ESAF/PRGF and EGPRSP, Mongolian policymakers have sought to implement a well-coordinated reform programme with support from bilateral donors as well as the WB and IMF. The programme focused on the following: promotion of private investment; liberalization of prices; privatization of state owned enterprises; improvement of fiscal policy by reducing tax exemptions, reducing the tax rate and lowering the budget deficit; reforming the financial sector; and reforming the foreign exchange market by letting the exchange rate to be determined freely in the market.

However the process of transition was that of rapid (shock-therapy) and simultaneous introduction of both economic and political reforms, enacted with reference to political imperatives, and at a rate which far exceeded the capacity of an economy that lacked basic market institutions to absorb such reforms, as Chapter 4 showed. Several contributory factors may be identified in the overall strategy for transition reform:

1. Political transition towards democracy linked to the surge of nationalism influenced by the events in the CEE, that brought to power in Mongolia more reformist radical centre-right and right-wing parties.

2. Availability of abundant foreign aid in the form of grant aid, technical assistance and long term concessional loans from bilateral and international multilateral donors, who sought to give strong support to political and economic transition.
3. Severe macroeconomic imbalances and shocks (both external and domestic) forced swift corrective measures, and a choice between liberalizing markets or returning to tighter controls.
4. The country's strategic location between two (nuclear) superpowers, which geographically and politically isolates and distances Mongolia from the rest of the world, nourished a strong sense of national identity, survival and self-esteem that made it possible to carry out grandiose plans and projects (including its earlier experiment with socialism).

As a result of economic reforms the economic structure has been diversified, the private sector has emerged anew, and freedom of enterprise has been granted to every citizen. The reforms have successfully helped to dismantle old structures, boost market forces, and achieve some stabilization at the macro-level. Despite this creation of foundations for a market economy and the visibility of stabilization, the aggregate growth rate throughout transition has been zero. Mongolia's economy needs to grow at a rate of 6 percent per annum for ten consecutive years to achieve its 1989 levels. Aggregate figures for investment and consumption are still below the level enjoyed in 1989. Investment is low or almost negligible to generate jobs. The structure of GDP has changed, with an increased share of trade and services and decreased share of industry and agriculture. The general tendency has been towards gradual de-industrialization and a return to rural subsistence. Trade and exchange liberalization policies made Mongolia one of the most open economies in the world, but the country is experiencing problems typical for a small economy. Its manufacturers find themselves squeezed between import-competition and rising product costs. As a result domestic output has fallen, leading to the closure of many remaining industries which were unable to compete with Chinese producers who increasingly dominate the domestic market. With the decline of the industrial sector, export sectors dominated by natural resources experienced a boom and services kept pace.

On the social development front persistently high levels of poverty, rampant unemployment and increased inequality are major characteristics of Mongolia. They, in turn, are causes of diminishing population growth rates, increased urbanization, outward migration, rising crime, violence, social disruption and alcoholism. The country suffers from chronic poverty and deteriorating social services and human capital. The combination of economic crisis and rampant poverty has made the country extremely debt laden and aid dependent. Mongolia is the fifth most indebted country in the world, highly dependent on foreign aid and credits from the IFIs, with debt servicing having reached 90 percent of Mongolia's GDP. The small foreign direct investment is concentrated, primarily, in the mining and extractive industries. After a decade of sacrifice, the economic reforms have failed to produce improvements in the standard of living. This economic development that economically and socially marginalizes large segments of the population poses probably the most important threat to the remarkable achievements made by Mongolia in the development of an open, pluralistic and democratic society.

Political Reforms

Perhaps the major success of Mongolia's reforms was the creation of the foundations for a modern democratic state: a multi-party parliamentary state was established, a humane constitution was adopted and a comprehensive legal system has been developed. Political transition was rapid, influenced by the same processes in the CEE. Governance and political institutions of the authoritarian state have been dismantled, the new governance framework for the liberal democracy has been largely laid out, civil liberties respected and the 'good governance' framework adopted. Mongolia's political system has received well-deserved attention as one of the most successful examples of democratisation in the Asian region. Nevertheless, the success of political reforms was partly off-set by the severe deterioration of the economy and loss in output, and with it a massive outbreak of unemployment and, related to it, income poverty. Also, in recent years there have been intense debates on flaws in the new political system. We saw that the criticism emerged in relation to making the system more efficient, representative, just, open and accountable to the people. Voices were raised in favour of presidential over parliamentary democracy, given that the economic downturn and severe social disruption, underdeveloped political culture, over-politicization of society, the

narrow interests of political parties despite a lack of discernible theoretical platforms, and a general lack of clarity over longer-term national development priorities characterize the current political process.

Public Management Reforms

Public administration and civil service reforms were part of this broader democratisation process, which entails the creation of a democratic multi-party political system and an economy guided by the principles of freedom of enterprise and free competition. The rejection of communism and embrace of a market economy and liberal democratic notions of the state required a fundamental rethinking of the nature and role of the state, and with it a radical re-design of the institutions of governance. Further reforms were needed to deepen the institutional transformation of the executive branch according to the new framework, and to introduce an entirely new type of government employment - a professional and neutral civil service immune to rapid swings in the political mood of the electorate. The target was an entrepreneurial, result-oriented, performance driven public management culture, inside an enabling rather than direct-provider state. The overall goal was to support the continued development of a market-based economy and to contribute to the introduction of democratic structures and processes necessary for the successful operation of the economy, while also ensuring the efficient delivery of well-managed public services.

The new public management framework was chosen as an instrument for achieving these objectives. Priority was placed upon the reorientation of the government and civil service to managing the economy *indirectly*, instead of through the old administrative machinery dominated by the MPRP. Reform in the methods and operational style of the government followed a new public management model based on the experiences of developed countries, most notably those of New Zealand. The principles of efficiency, effectiveness, transparency, value for money, and entrepreneurial government became the main operational principles of government.

The strategies pursued were:

- 1) discarding the old Soviet-modelled socialist state political system with its values, administrative norms and party nomenclature;
- 2) replacing these with new public management principles and values and corresponding financial and personnel management systems;
- 3) strengthening the leadership role of the executive government;
- 4) 'rightsizing' the government through decentralization, deconcentration and delegation of 'non-core' administrative and financial responsibilities, mostly for health, education and social services to lower administrative, territorial and organizational units;
- 5) rationalization/downsizing of government organizations and budget entities and separating policy from administration through creation of agencies;
- 6) restructuring through various degrees of privatization of the state enterprise and social sectors including contracting out (outsourcing) certain non-core functions to the private and NGO sectors;
- 7) marketization and monetization as efficiency enhancing measures (setting better expenditure control and budget management) and setting new expenditure priorities by cutting subsidies and transfers.

We saw that the introduction of a more radical approach to public administration and civil service reform after 1997 met with resistance from the old conservative block of the MPRP, who feared that radical reform would disrupt the political system and erode popular support for the ruling party. These conservatives were also concerned about erosion of the public ethos as a result of rapid marketization and monetization of the Mongolian public administration. They feared that excessive reliance on market mechanisms and associated reductions in the size of government employment would exacerbate already high levels of unemployment and poverty. Resistance came also from the civil servants, who feared job losses and employment insecurity due to the introduction of internal markets and competition through tight performance and output contracts, as well as unrestrained actions of newly introduced executive budget 'managers', who were assigned exclusive powers with regard to personnel management. The PSFMA remained pending in SIH after 1997 until it was finally

approved in 2002 by the younger reformist block of the MPRP that emerged in the political arena after the 2000 elections.

Reform measures were introduced only once there was a full political commitment. Firstly, the MPRP government could ensure the approval of the PSFMA because they overwhelmingly dominated in the parliament after 2000, winning 72 out of 76 seats. Secondly, earlier reforms in public administration had concentrated decision-making power in the hands of a few top executive officials in the government, who later were able to use their exclusive powers to influence the legislature dominated by a single party. According to the new constitutional arrangement, the leader of the ruling party also leads the executive government. Thirdly, although initially opposed to the Law, the MPRP supported the PSFMA only when it was half way through its term in office, in mid 2002, when all other options for planned increases in the civil service wage bill were finally exhausted. Crucial here was that the civil service still constitutes the broadest electoral base. The fact that the MPRP was under strong pressure to secure funding and international back-up in the face of severe resource constraints, coupled with the electoral competition from the democratic parties, were crucial determinant factors in making policy choices. Indeed, introduction of radical policy reforms such as NPM was possible only once they were introduced as part of a broader reform package, such as the Enhanced Structural Adjustment Facility/Poverty Reduction and Growth Facility secured first in 1997, and later in 2000, after the two general elections.

The structural transformation of the political system has been accomplished by and large. As a result of structural reforms (i) the old governance system was revamped with dismantling of a socialist political system; (ii) a decentralised system of governance was created with the delegation of certain types of administrative and financial decision making to lower levels of government; (iii) the size of the public sector and the government was substantially reduced in line with the changing role of the state in a market economy. By 2002 public expenditure as a proportion of GDP was reduced to 44 percent against an average of 69 percent in 1985-1989. The private sector produced over 80 percent of GDP and over 90 percent of enterprises were in private hands. Government employment was reduced from near 100 to 20 percent by 2000. Also, a separation of policy-making and execution was ensured

through assigning the responsibility for policy making to core ministries and the responsibility for policy implementation to regulatory agencies and other corporatised bodies.

However, system-wide analysis showed that reforms had only a limited positive impact on the operations of the government, largely affecting its formalised institutional framework. The experience of NPM reforms in Mongolia suggests that government policy-making and implementation capacity has been greatly eroded. Expectations of creating a well performing, permanent and impartial government service also have not been realized. Diminished accountability and access to information, minimal public participation and representation (including gender) in government, politicization of the civil service and bureaucratisation feature prominently in contemporary government politics. Demoralization, skills shortage, corruption and patronage have emerged rapidly against a background of economic crisis, widespread poverty, and lack of employment opportunities. The government posts became a primary focus for the distribution and re-distribution of wealth and for the bargaining of lucrative contracts in the context of massive privatization, sales of public assets, and introduction of a licensing and contract culture.

Administrative reforms in the education sector translated into a sharp contraction of government spending on education, including cost-containment and rationalization of the sector in the light of the new role that the state had assumed in the conditions of a market economy. The reforms, based on the new public management paradigm, sought to introduce market mechanisms of production, allocation and distribution into education, and to increase the sector's efficiency through deregulation, decentralization, strengthening its labour market linkages, introduction of cost-recovery, contract culture and new management principles.

The analysis of reform impact on the education sector found that policymaking and implementation capacities at all levels, including the Ministry, local governments and implementing units, had been constrained by several factors. They included: 1) political instability and frequent changes in government, top and mid-level leadership, and arbitrary dismissals of government servants including school principals; 2) positive effects of policies to increase local level capacity to provide education were counterbalanced foremost by austerity measures in the sector, which deprived it of any prospects for investment; 3) separation of

politics from implementation increased the gap between policy and implementation by reducing the accountability of policy-makers for their policies, while inhibiting the capacity of local level institutions to influence policy-making; 4) increased workload of government servants at central and local levels as a result of civil service reforms and sector rationalization; 5) demoralization and corruption of government officials, influenced by political interference and civil service salary freezes, and demoralization of the teaching profession due to low pay; 6) a too rapid implementation of reforms in an extremely unfavourable economic environment, so that management decentralization in the education sector was carried out rapidly, without capacity building in local administrations and against the background of the collapsing economic base of rural Mongolia; and 7) economic crisis, unemployment and widespread poverty affected the motivation and performance of students and parental attention to their children. Therefore, we see a gap between the design of the reform programme and its results as indicated in the application to one major public service.

The main benefits accrued to Mongolia's students have been internationalisation of education, diversification, and freedom of choice. But at the personal level these freedoms were somewhat constrained by the economic and social affluence of individuals. The combined effect of public management reforms on education was deterioration of standards along all three dimensions – quality, enrolment and equality. The quality has deteriorated as a result of more than threefold reduction in education spending, and the associated rationalization of schools (increase in student-teacher ratio), and lack of interface between policy and implementation. Enrolment fell rapidly in the beginning of transition, with rises in dropout rates and access to education dependent on the economic affluence of parents, widening social stratification and increasing inequality. Overall, reforms in the education sector in Mongolia resulted in a worsening of distribution of the educational opportunity along geographical, gender and social dimensions.

What can be said from the evidence gathered on the Mongolian experience with NPM type public management reform? A number of specific and more general lessons can be drawn from this case study:

Foremost, in terms of the methodological framework, the interview methodology used in the research showed clearly the significance of the 'process' in policy analysis. The public management reform implementation process can not be analysed simply by studying bureaucracies and formal institutions as public administration and public choice schools of thought suggest. The interviews and findings of the research support the view of the broader public policy perspective described in Chapter 2 that both 'structure' and 'process' including state political, economic and social organizations and relations, structures, external and internal environments, interactions, power and class relations and processes are crucial in analysing policy. For instance, we found that in the case of Mongolia public management reforms were closely linked to political and economic governance reforms under the generic transition strategy. We also found that political, economic and social contexts too impacted the implementation of public management reforms.

In terms of the reform experience, the Mongolian NPM reform is a classical case of 'external' policy transfer in which the IFIs and multinational organizations played a crucial role as Mosley et al. (1991), Biersteker (1995), Minogue (1994, 1998, 2002), Dolowitz and Marsh (1996), Common (1998, 1999), Verheijen (1998), Allen (1999) and others have suggested. As Chapter 2 showed, international organizations were active promoters of NPM reforms in developing and transitional economies under the twin strategies of 'attacking poverty' and 'promoting good governance'. In Mongolia NPM reforms were part of the IMF/World Bank parcel of structural adjustment and stabilization reforms, a strategy crucial in sustaining impetus for reform in an environment characterized by a lack of political stability, frequent changes in government, and turnover of leadership.

As we saw in the cases with MDP and PSFMA, the reforms were driven by donors, and with minimal participation of national specialists in formulating the policies and strategies. The national government had little control over the design and formulation of policies. This, perhaps, was the main reason why the implementation of complex sets of measures did not bring about improvements in the performance and quality of public services. The external drive had political imperatives, with little regard for the country's institutions, administrative and political culture and capacity to implement complex reforms. This supports the claims about the very ideological and political stance of NPM expressed by Mosley (1991),

Biersteker (1995 cited in Common 1998) and the thesis about the deliberate efforts of 'voluntary and coercive policy transfer' on the part of different actors, including developing country governments, international organizations, aid agencies and bilateral donor organizations (Dolowitz and Marsh 1996; Minogue 1994). The ideological and political nature of reforms is also clearly discernible within Mongolian polity. NPM reforms provided opportunities for shaking up rival party bureaucracies, strengthening the core government and weakening of local level representative institutions.

We saw that Mongolian decision makers, ravaged by their own political ambitions and struggles for power, failed to develop their own model, which would have been more likely to work, and too easily accepted external models. Severe resource constraints, weak policy-making capacity and general lack of consensus and coordination within government made it difficult for the government to voice and assert its needs and to articulate its developmental goals. As a result, issues significant to donors but of less importance for the GOM and the country became illusory priorities. This experience is in consonant with the view on the experiences of other countries that 'many programmes have not been demand-oriented, but rather supply driven, that is to say more responsive to the agencies, their partners and associates than to the recipient government' (UN 2001:59).

The combination of the above factors resulted in the formulation of reform objectives and design which were overoptimistic and overly ambitious given the Mongolian context described in Chapters 3 and 4. The reforms included all three components for PAR reform - policy/strategy, human resource management, and public expenditure reform - and were carried out almost simultaneously over a short period of time. As Chapter 5 showed, presence of large numbers of bilateral donor projects under the MDP made the coordination of donor projects for the government extremely difficult.

This, combined with the findings of the analysis, led us to question the very appropriateness of the overall model to Mongolia. The findings confirm that 'policy transfer' is problematic in the case of NPM style reforms as the experiences of developing and transitional countries show (Chapter 2). There is ample evidence to suggest that the model was less than suitable for the country on several counts. It is clear that necessary economic,

social and political preconditions for the range of neoliberal reforms, including new public management reforms, were nonexistent. This explains the gap between PAR goals and results. The complex social, political and economic contexts were not given due regard, including a lack of resources associated with difficulties in the economy, and near complete absence of market institutions and financial and regulatory institutions, let alone any institutions of civil society.

First, radical neoliberal reforms were mounted in a country with underdeveloped institutions and legal framework of market economy. They incorporated the most sophisticated strand of PA reform based on the New Zealand model, the effectiveness of which is 'not clear even in developed economies' (Minogue 2002:14). Mongolia had not even developed a bureaucracy according to the traditional model. On the contrary, despite strong cautionary remarks by Schick (1998) and Allen (1999), an opportunity to 'side-step' the traditional bureaucratic model and introduce the 'modern' model of PA was regarded as a blessing and a rare historical opportunity which should not be missed. The availability of the management capacity and pre-conditions for introducing this model were not given due regard. Instead, it was decided early in the reform that this capacity would be developed in the course of implementation. Associated with this disregard of capacities and context were difficulties in comprehending and digesting complex concepts used in NPM terminology, some value contradictions and old inertia. Understanding and internalising new public management principles based on market values was an especially slow process as they contradicted prevailing cultural values and a mentality of Mongols linked to the still- strongly preserved pastoral nomadic life-style and the socialist legacy, both of which stressed collectivist ideals and equality. This inertia of old thinking still prevails in the Mongolian administrative culture and has greatly inhibited the adoption of new public management principles.

Second, economic crisis, which led to the application of a stringent public finance regime and drastic cuts in government expenditures, was a major constraint to introducing NPM reforms. The implementation was limited by lack of resources, low pay and thus demoralization and corruption in government, these consequences emerging rapidly against the backdrop of economic and political reforms, especially privatization and liberalization. On

this point the findings support the thesis provided by Harris-White and White (1996), that liberalization of public services can lead to increased corruption. Not least important in the Mongolian context were the crisis and unstable social context, with rampant unemployment, poverty, rising inequality, alcoholism and crime.

Third, democratization of the Mongolian political system had implications for its PA reform in that political swings, frequent changes in government and an absence of national consensus created political instability. Public administration became ravaged by power struggles between narrow interest groups, undermining efforts towards creating a professional and neutral civil service. The civil service was instead and additionally prone to crises due to lack of funding, salary freezes, poor morale and corruption.

A fourth critique from the analysis is the revelation that, in combination, transition reforms drastically reduced the size and the capacity of the Mongolian state to implement NPM reforms, let alone manage the economy and society. The case of the education sector illustrated that deregulation of the sector was carried out with little if any government regulation to prevent a market failure and imperfections, thus resulting in an improper mix of qualifications, a sharp rise in unemployed graduates, and an overall deterioration of the quality of education. According to Minogue (2002:21), 'the developmental state has an essential role; it will remain both the object and the subject of reform, and is likely to retain considerably greater direct regulatory responsibilities than is now customary in developed countries'. The transformative conception of the state embodied in NPM could, given its zeal to reduce the state, be regarded as a 'paradox' (Minogue 2002).

The NPM reform met with considerable resistance as an external model, both in terms of cultural acceptance as mentioned above and bureaucratic resistance. Bureaucratic resistance stemmed from anticipations within the bureaucracy that the NPM reform would not achieve its objectives. Instead there were fears that 'sophisticated', 'radical' and 'extremely neoliberal' reforms would have potentially 'disastrous' effects on the bureaucracy and the public services given Mongolia's present state of economic crisis and political turmoil. Although the nature of the government changed the operational mode or methods intrinsic to its old model are still in place.

This thesis has analysed the process of implementation of public administration and civil service reforms in Mongolia, the major strategies applied, and the effects and outcome of reforms. The overall conclusion is that these reforms have not been successful. Donor expectations and preferences were met in respect of political governance reforms, but not in the case of economic and managerial reforms. In response to the above issues, at this point donors need to learn from such mistakes, and aim to produce more workable, practicable and less perfect solutions, ones which are based on Mongolian resources and Mongolian political situation. As Lacking (1999:223) rightly says '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'.

Appendix 1. Comparing the Old and New Government

Old PA	New PA
Central Government:	
<ul style="list-style-type: none"> ➤ Socialist ideology ➤ Objective: serving the interests of all people ➤ Content of its activities: implement the Party (MPRP) Programme and carry out on a daily basis objectives/functions of the 'socialist state' ➤ MPRP control and oversight of public administration ➤ Chairman of Council of Ministers ➤ Council of Ministers, Presidium (comprised of chairman of Council of Ministers, deputy chairman, vice-chairmen (Constitution 1960, Chapter 4, Articles 37, 42) ➤ Chairman, deputy chairman, vice-chairmen, ministers, heads of State Committees are all appointed by People's Great Assembly/Hural (ibid., Article 42); ➤ Principles: party leadership, democratic centralism, rule of the socialist law, participation of people, transparency, equality, planning and accounting ➤ Central government structure: ministries, state committees, special boards (ibid., Article 43) ➤ Decision making: combination of centralized authority and collective decision-making, individual responsibility, combination of centralised and territorial and sectorial administration (ibid., Article 43) ➤ State Bank and Central Statistical Office are part of central government ➤ At the local government level includes state enterprises and state organizations ➤ State Control Committee and People's Control Committee and its local level committees 	<ul style="list-style-type: none"> ➤ Not specified ➤ Not specified²¹¹: ➤ Implementation of legislation, overall management of the economy and socio-cultural organization (Constitution, Article 38.2, Law on Government, Article 3.2) ➤ The party with majority seats in parliament forms its government (Constitution, Article 25.6) ➤ Prime Minister (Constitution, Article 39.1, Law on Government Articles 17.1, 20.1, 20.2) ➤ Cabinet structure, comprised of Ministers (Law on Government, Article 17.3) ➤ Ministers are appointed by the SIH as recommended by Prime Minister (Constitution, Articles 25.1.6, 39.3, 36.1.2, 39) ➤ Principles: democracy, justice, freedom, equality, national unity, rule of law (Law on Government, Article 5.1) ➤ Central government structure: core and line ministries, regulatory and implementing agencies (Law on Government, Articles 18.3, 18.2, this provision replaced the old provision of 1992 in 1996) ➤ Decision-making: collective, based on majority view while respecting the minority, individual responsibility for implementation, collective accountability to SIH, combination of territorial and sectorial administration (Law on Government, Article 5.2) ➤ Independent Central Bank and National Statistical Office ➤ Almost all state enterprises privatised ➤ Separate State Audit Board
Local government:	
<ul style="list-style-type: none"> ➤ Administrative Units: rural - <i>aimag</i>, sum (2 levels); urban - city/Ulaanbaatar, rayon/district, horoo (3 levels) (Constitution 1960, Chapter 5, Article 46) 	<ul style="list-style-type: none"> ➤ Administrative units: rural - <i>aimag</i>, sum, bag (3 levels); urban - the city, duureg and horoo (3 levels with central government) (Constitution 1992, 4.57.1; LATU, Article

²¹¹ The government business strategy adopted in 1996 defined the mission of the Mongolian government as follows: 'Adopt government processes to a market economy in a democratic society and assist the creation/consolidation of a viable private sector'

<ul style="list-style-type: none"> ➤ Local authority is vested in <i>aimag</i>, city, rayon, sum and horoo People's Deputies' Assemblies (Hurals). Deputies are elected for terms of 3 years by local working people (ibid., 47) ➤ The Presidium of People's Great Hural of the MPR establishes the number of local deputies (ibid., 48) ➤ Local state power is vested in <i>aimag</i>, city, sum, horoo, rayon and local People's Assemblies (Hurals). Deputies are elected by citizens of respective <i>aimags</i>, sums, horoos, rayons and local areas for terms of 5 years (ibid., 47). People's Great Assembly establishes the number of deputies for local People's Hurals based on the population and other circumstances (ibid., 48). ➤ <i>Aimag</i>/city People's Hurals meet no less than twice a year and called by their respective Executive Committees. Rayon, sum and horoo People's Hurals meet no less than three times a year and called by their executive committees, or Presidium of the People's Great Assembly, or upon majority decision of the deputies (ibid., 49). ➤ <i>Aimag</i>/city People's Assemblies' elect their Executive Committees to run daily activities on behalf of local assemblies (ibid., 51) with 7-11 members; rayon, sum, horoo People's Assemblies elect their Executive Committees consisting of 5-9 members (ibid., 52). ➤ Higher level People's Assemblies and their executive committees have a right to amend or annul decisions made by lower level assemblies and executive committees, respectively (ibid., 57, 58). ➤ Local level people's assemblies set up permanent committee according to their functions and shall involve local activists from working people (ibid., 60). ➤ <i>Aimag</i>, city Executive Committees establish line departments and sections, which are accountable to <i>aimag</i>, city People's Deputies' Executive Committees and relevant ministries or special boards 	<p>3.1)</p> <ul style="list-style-type: none"> ➤ Local governance principles: combination of both state-governance with local self-governance (Constitution 1992, 4.59.1; LATU, Article 8.1) ➤ Operational principles: democracy, justice, freedom, equality, national unity, rule of law (LATU, Article 8.1) ➤ State-governance (at local levels): <i>aimag</i>, city, sum, duureg, bag and horoo Governors (Constitution 1992, 4.60.1; LATU, Article 10.1) ➤ All Governors are nominated by their respective Hurals; <i>aimag</i> and city Governors are appointed by the Prime Minister; sum and duureg Governors are appointed by respective <i>aimag</i> and duureg Governors; bag and horoo Governors – by the Governors of respective sum and duureg (Constitution 1992 4.60.2; LATU, Article 10.2) ➤ Sum, District, bag and horoo Governors appointed by the Governor of the higher instance Hural and confirmed by Public Hural (ibid.) Terms – 4 years ➤ Local self-governance: Hurals of <i>aimag</i>, city, sum and district citizen representatives (known as Citizen Representatives' Hurals, elected for 4 years) and Public Hural of the citizenry at the bag and horoo levels (Constitution 1992, 4.59.2-3; LATU, Article 7.1). Hurals establish their respective executives responsible for daily activities. The numbers of representatives are set based on settlement pattern, economic structures, natural and geographical factors and communication infrastructure ➤ Hurals propose for the appointment and dismissal of the Governor to the Governor of the higher instance Hural or Prime Minister (LATU, Article 11.5) ➤ The Governor can veto decisions of the local Hural. If his/her veto is rejected by the majority of the Hural and the Governors shall deem its decision inappropriate he/she shall present a letter of resignation to the Hural, the PM or the Governor of the higher instance (Constitution 1992, 4.61; LATU, Article 14.1)
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Appendix 2. Chronology of Administrative and Civil Service Reforms under the MDP

1993 Nov	One-year bridging project for MDP Resource mobilization trip to Europe (MDP)
	UNDP projects MON/94/101 and 102 were formulated
Dec 30	Management Development Programme (MDP) adopted by the GOM (resolution no. 199)
1994 July	The Strategic Management Unit began operations (start of MDP implementation) Public Administration and Civil Service Reform Programme started under the MDP
	National project teams created
Sep-Oct 1995	The 1 st Global Workshop
December 30	The Government Administrative Service Law approved (entered into effect in June 1, 1995)
1995 June1	State Auditing Board created
June	2nd Global Workshop, the GOM business strategy and a Global Public Administration Reform proposal discussed
July 3	The Government Administrative Service Council created Study tour on Public Administration Reform to Australia, New Zealand, Malaysia and Singapore Study tour on decentralization to the Philippines and Nepal A visit by a group of parliamentarians to Malaysia and Singapore, and Sweden, Germany and the USA
December	The Cabinet approved its new Business Strategy and a Global Public Administration Reform proposal
1996 January	GOM's Business Strategy for restructuring of the Cabinet Secretariat presented to the SIH
April	A workshop on business strategy
May 27	SIH approved the Business Strategy and a Global Public Administration Reform proposal (resolution no. 38 'Mongolian State Policy on Reforming Government Processes and the General System of Structure')
June	Entrance examinations for the entire civil service held for the first time
July	Implementation of the Public Administration Reform began Study tour on Implementation to Vietnam, Laos and Thailand Ministries prepare their business strategies General elections (Democratic coalition wins) 3d Global Workshop MDP terminated
	Number of ministries reduced from 14 to 9
September-October	UNDP evaluation mission

Appendix 3. Government of Mongolia's Business Strategy, 1996

Mission	Strategies	Operating objectives	Reform actions
Adopt government processes to a market economy in a democratic society and assist the creation/consolidation of a viable private sector	Strengthen government leadership and implement improvements	Strengthening government strategic policy and planning capacity	<ul style="list-style-type: none"> Undertake policy and planning processes
		Strengthening government development planning and economic management capacity	<ul style="list-style-type: none"> Centralization of economic functions Strengthen aid management and coordination Enhance national economic policy and coordination
		Define optimal number of sectors with fewest number of ministries in each sector	<ul style="list-style-type: none"> Define government sectors Define line ministries for reach sector
		Restructuring ministries as policy and planning entities	<ul style="list-style-type: none"> Restructure ministries as policy and planning entities
		Establish rational set of regulatory agencies	<ul style="list-style-type: none"> Define regulatory agencies
		Establish new criteria for implementing agencies and budget entities	<ul style="list-style-type: none"> Define implementing agencies Define criteria for implementing and budget entities
		Distinguish between policy, investment and managerial goals for government involvement in state enterprise sector	<ul style="list-style-type: none"> Strengthen state property management Create new forms of public/private sector relations
	Strengthen government executive management capacity	Strengthen the role of Prime Minister and Cabinet	<ul style="list-style-type: none"> Expand PM's powers and duties Improve cabinet support system Re-engineering agenda and submission process
		Strengthen management support to Prime Minister and Cabinet	<ul style="list-style-type: none"> Institute strategic management and planning Strengthen central-local government relations Enhance human resource management
		Strengthen government financial management and audit capacity	<ul style="list-style-type: none"> Strengthen tax planning and analysis activities Strengthen budgeting and expenditure management system Establish a new control system Establish accounting, auditing and consulting services capacity
		Consolidate management of government common services	<ul style="list-style-type: none"> Develop common services policy Implement a pilot common service Real estate common services Information system common services Procurement and contracting common services
	Strengthen local governance and administration	Strengthen all level hurals	<ul style="list-style-type: none"> Strengthen all level hurals
		Strengthen local Governors' offices	<ul style="list-style-type: none"> Strengthen local Governors' offices
		Increase local finances	<ul style="list-style-type: none"> Create local administration financing mechanisms
		Strengthen central-local relations	<ul style="list-style-type: none"> Strengthen central-local relations
	Provide enabling environment for the private	Undertake cash privatization as a second stage of the process	<ul style="list-style-type: none"> Undertake cash privatization
		Strengthen corporate governance and restructure large privatised enterprises	<ul style="list-style-type: none"> Enterprise restructuring

Mission	Strategies	Operating objectives	Reform actions
	sector	Support business development through NGO service delivery	<ul style="list-style-type: none"> • Support the EMRC • Support the MBDA
	Manage reform impacts and adjustments	Manage adverse impacts of reform implementation	<ul style="list-style-type: none"> • Develop workforce adjustment policy • Assist communities affected by the reform
		Improve motivation and morale in the civil service	<ul style="list-style-type: none"> • Reform civil service work hours • Upgrade civil service compensation scheme • Introduce incentive and reward schemes

Appendix 4. MPD Components and External Cooperation Projects under the MDP

Component I. Public Administration and Civil Service Reform

- Public Administration and Civil Service Reform (UNDP, MON/94/102 US\$0.5 mln)
- Public Administration and Civil Service Reform – Phase II (UNDP, MON/96/101, US\$ 0.95 mln)
- Civil Service Training and Consultancy (SIDA, SIPU, US\$ 0.8 mln)
- Civil Service Training and Consultancy – Phase II (SIDA, SIPU, US\$ 1.0 mln)
- Government Restructuring (New Zealand CDA, US\$ 0.25 mln)
- Job Classification Development for the Civil Service (United Kingdom ODA, US\$ 0.35 mln)
- State Audit Board Institutional Support (Germany GTZ, US\$ 2mln)

Component II. Decentralization and Local administration Strengthening

- Decentralization Programme Support (UNDP/DDSMS-TSS, MON/96/104)
- Strengthening Local Administration (ADB)
- Policy, Legal and Institutional Framework and Training (AUSAID)
- Community-development models of democracy (UNESCO-DANIDA)
- Strengthening hurals at *aimag* and *soum* levels and hural civic society links (SIDA)

Component III. Privatization and Private Sector Development

- Review of the Industrial Policy TA (UNIDO)
- Preparations for SOE Privatization and Restructuring (UNIDO)
- Enterprise Restructuring (Dutch Government; US\$2.8 mln)
- Enterprise Restructuring (IBRD; US\$ 1 mln TA and US\$15 mln FA)
- Corporatization, Privatization and Institutional Strengthening of Three SOEs and partly SOEs (New Zealand; US\$0.35 mln)
- Strengthening Mongolian Training Institutions (European Union; US\$1.2 mln)
- Small and Medium Sized Enterprise Promotion (TACIS; US\$2.9 mln)

Component IV. Management Development Institution Strengthening

- Management Education (Japan Human Development Trust Fund/UNDP; US\$250,000)
- Management Education – Phase II (JPDTF/UNDP; US\$300,000)
- Management Training in Key Economic Sectors (AUSAID; US\$860,000)
- Management Training for CMMDI Senior Faculty (AUSAID; US\$720,000)
- Faculty Master's Degree Programme (AUSAID; US\$1.8 mln)
- Economic Education at the Mongolian National University (EU; US\$2.1 mln)

Component V. Support Systems – Accounting Auditing; Support Systems – Management Information System

- Accounting Auditing (GTZ)
- Public Management Information Systems (PMIS) (UNDP MON/95/501)

Sources: GOM (1995), UNDP (1996)

Appendix 5. Summary of the Budget (as percent of GDP)

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
Total revenue and grants								26.7	29.4	28.8	33.6	38.9	
Current Revenue	50.6	47.4	30	30.2	31.1	25.6	24.8	24.7	26.5	26.8	33.1	38	32.7
Taxes, fees and charges	43	42.7	26.3	28.7				19.7	18.8	19.7	25	29	
Non-tax receipts	7.6	4.7	3.7	1.5				5	7.7	7.1	8.2	9	
Capital revenue								1.3	1.8	1.3	0	0	
Grants								0.7	1	0.7	0.5	0.8	
Current expenditures	51.9	51.7	31.1	28.3	26.8	31.5	32.7	34.5	41.9	39.4	40.5	39.8	39.8
Wages and salaries	8.6	9.8	6.7	4.7				5.4	6.8	6.9	8.2	8.1	
Purchases of goods and services	18	13.6	12.8	12.9				10.3	12.2	11.2	11.7	14.4	
Subsidies to public enterprises	14.1	7.3	3.7	2.1				0	0	0.1	0.3	0.5	
Transfers	7.6	11.5	6.3	5.1				5.2	6.8	7	8.1	7.9	
Interest payments	0.7	1.8	0.6	1.1				2.2	1.4	2	1.7	1.5	
Other	2.9	7.8	1	2.4									
Government savings	-1.3	-4.3	-1.1	1.9				1.6	-0.7	-0.3	3.1	5.6	
Capital expenditures and net lending	12.2	5.4	11.3	18.8				11.4	14.6	12.3	11.1	10.9	
Overall balance	-13.5	-9.7	-12.7	-17		-6.7	-8.2	-7.8	-12.5	-10.6	-7.5	-4.5	-7.1
Financing	13.5	9.7	12.7	17				7.8	12.5	10.6	7.5	4.5	
External (net)	10.5	9.7	11.4	17				11.1	8.3	10.1	6.4	6.4	
Domestic (net)	3.1		1.4	-0.9				-3.3	4.2	0.5	1.1	-2	

Source: World Bank (1994), World Bank (2002), Ministry of Finance and Economy

Appendix 6. Major Events Attended (on Public Administration Reform)

1. Seminar 'Legislative Regulation of Management and Its Trends' organized by the Public Administration Standing Committee, SIH, 19 March 2002
2. Meeting and interview with the *horoo* governor in *horoo* no. 2, Sukhbaatar District, Ulaanbaatar, 10 June 2002.
3. Anti-Corruption Exhibition 'Today or Never' and Meeting, Association of Mongolian Art Committees, Ulaanbaatar, 10 April 2002.
4. Meeting and Interview with officers of Bayanzurkh District Government Office, 7 May 2002.
5. Interview with the members of the Presidium of Citizen Representative Hural, Chingeltey District, Ulaanbaatar, 2 May 2002.
6. Round table joint discussion of the MPs and the scholars on the proposed PSFMA and the results of pilot projects in the five government agencies, 2 April 2002, Government House.
7. Training organized by the PARP for Ministry officials on output specifications, budgeting, performance and output contracts and on the implementation of the PSFMA, Government House, 24 November 2002.
8. Training for MoFA officials on the implementation of the PSFMA, Ministry of Food and Agriculture, 27 November 2002.
9. Conference with the *Aimags* Governors on the nationwide implementation of PSFMA and the role of local government, Government House, 1 December 2002.
10. Conference with representatives of the SIH agencies on the implementation of the PSFMA (Office/Secretariat of the President, Office/Secretariat of the SIH, Election Committee, National Human Right Commission, Bank of Mongolia etc.) Government House, 3-4 December 2002.
11. Seminar 'Improving Public Financial Management in the Health Sector', Ministry of Health, 5 December 2002.
12. Trip to Dornogovi with the PARP team, interview with the *aimag* officials on their understanding of the PSFMA and implications for the *aimag* government, 24-26 December 2002.

Appendix 7. List of Interviewees (Chapters 5 and 6)

State Ikh Khural

1. S. Oyun, MP, leader of the Citizen Will-Mongolian Republican Party, President of Zorig Foundation (14 April, 23 May, 25 November 2002)
2. Bayarsaikhan, Assistant to the MP (25 November 2002)
3. Lamjav, Senior Officer, Secretariat, formerly, one of the leaders of the Socialist Democratic Party of Mongolia (26 June 2002)
4. Naranzul, Assistant to the MP (25 November 2002)
5. Yo. Munkhbaatar, Officer, Standing Committee on State Budget (12 April, 20 December 2002)

Cabinet Secretariat

6. L. Khangai, First Deputy Chief (25 November 2002)
7. Ts. Yanjmaa, Programme Coordinator, USAID Gobi Initiative, former MDP Manager, National Coordinator (1994-1996), former assistant to Sodnom, Vice-Chairman of the Council of Ministers (pre-1990 government) (May 23, 13 December 2002)
8. Sambalkhundev, Head, Government Service Personnel Department, former MDP Steering Committee member (1994-1996) (18 March 2002)
9. S. Solongo, Head, Legal Department, participated in drafting the Government Service Law and the GOM (Cabinet) Business Strategy (7, 25 November 2002)
10. M. Erdene-Ochir, Analyst, Department of State Central Administrative Organizations (4 April 2002)
11. Baatarsaikhan, Statistician (28 August 2002)
12. Shaandar, Member, Government Service Council.
13. Batbold, former adviser to the Prime Minister Enkhsaikhan (1996-1997) (13 January 2002)

State Audit and Inspection Committee (pilot agency):

14. B. Batbayar, Secretary General, former Project Coordinator for the MDP (Decentralization) (7 April 2002)

IAMD

15. B. Enkhbat, Director, Trade and Development Bank of Mongolia, former consultant for MDP, SIDA, DANIDA governance projects. Formerly, Director of the consultancy firm Centre for Social Development (4 March 2002).
16. Sh. Batsukh, Deputy Director, later advisor to the President of Mongolia (8 April, 23 July 2002)
17. Gantumur, Director, Centre for Social Development, former consultant for SIDA (MDP), DANIDA governance projects (23 July 2002)
18. Bakhuu, Consultant, former lecturer of IAMD (8 June 2002)
19. N. Naranchimeg, Head, Faculty of Education Management (6 June 2002)

GOM Good Governance for Human Security Programme:

20. D. Tserendorj, National Programme Director, President of the Mongolian Management Association, former head of the MDP Expert Group, former Deputy Minister of Culture (1992-1993), former lecturer at the IAMD (13,20 March, 3 April 2002)
21. J. Oyuntuya, former National Programme Director, former Coordinator for the MDP (18 June 2002)

Human Rights Commission

22. S. Tserendorj, Chief Commissioner (17 April 2002)

ADB/GOM Public Administration Reform Project

23. B. Namkhajantsan, Project Director, former Vice-Minister of Education, later, advisor to the President of Mongolia (19 March, 24 December 2002)
24. G. Tserenkhand, National Project Coordinator (19 March, 10, 11 December 2002)
25. S. Erdenechimeg, Project Coordinator (MOSTEC) (11 December 2002)
26. Suvd, Project Coordinator (MoSWH) (25 November, 20 December)
27. Lkhagvasuren, Financial Management Specialist (20 December 2002)

Ministries and Agencies

28. Gelegjamts, MOSTEC, Director, Department of Administration and International Cooperation (15 May 2002).
29. Jargalsaikhan, MOFE, Economic Policy Planning, Financial Management.

30. Uranbileg, MOFE, Single Treasury Account (20 April 2002).
31. Tsolmongerel, Officer, MOH (28 June 2002).
32. Enkh-Amgalan, former officer of the MOFA (13 December 2002).
33. Ch. Dagvadorj, Head of Department, MOLSS (15 May 2002).
34. Dolgormaa, Officer, MONE (17 December 2002).
35. Batmunkh, State Statistical Office (26 March 2002).
36. Batjargal, Former Director of the General Department of Taxation (29 March 2002).
37. Ariuntugalag, Adviser to the President of Mongol Bank (9 July 2002)
38. Ganzorig, Lecturer of Administrative Law, National University, former member of the legal working group in the SIH (21 March, 22 November 2002)

Local government

39. G. Badarch, Director, Food and Agricultural Dept., Orkhon province, former *aimag* depy Governor and *soum* governor (28 June 2002).
40. G. Dulamjav, Bayanzurkh District Administration (9 July 2002).
41. Oyun-Enkh, Horoo Governor, Sukhbaatar District, Ulaanbaatar (19 June 2002).
42. Tsagaan, Deputy Chairman, Bayanzurkh District Citizen Representatives Hural, Ulaanbaatar (15 May 2002).
43. Tumur, Horoo Citizen Representative Hural, Chingeltey District, Ulaanbaatar (17 May 2002).
44. Baldan, Dornogovi *aimag* administration (24 December 2002).
45. Ariunaa, Legal Officer, Bayanzurkh District administration (9 July 2002).

NGOs

46. Battuvshin, Board member, Mongolian Association of Local Authorities (19 November, 25 March 2002).
47. Manaljav, Vice-President, Mongolian Association of Local Authorities (22 November 2002).
48. Enkh-Amgalan, Director, Centre for Policy Research, former Director of PARP (28 March 2002)

49. Sumatii, President, Sant Maral Foundation (28 March, 2002)
50. J. Zolmaa, Researcher, Political Education Academy (24 March 2002)
51. Togtohjargal, Children's Rights Centre (26 June 2002).
52. S. Oyun, Zorig Foundation (15 March 2002).
53. Hurelbaatar, Mongolian Association of Trade Unions (2 July 2002).

International Organizations

54. M. Ashidmaa, Barents Group, Privatization Project, USAID
55. Batkhishig, Project Officer, Save the Children Fund (SCF) (5 June, 24 September 2002)
56. Barkhas, Coordinator, AUSAID Capacity Building Project
57. La Porta, Country Programme Director, SCF (10 April 2002)
58. Tsolmon, World Bank Resident Mission Office in Mongolia (5 April 2002)
59. Barry Kitchcock, Resident Representative, Asian Development Bank
60. Tserendorj, National Coordinator, UNDP/GOM Good Governance for Human Security Programme
61. J. Holst, DANIDA (11 September 2003)

Appendix 8. List of Interviewees (Chapter 7)

MOSTEC

1. Ass. Prof. R. Bandii, Director, Project Implementation Unit, MOSTEC/ADB Education Sector Development Programme (ESDP) (18 March 2002).
2. Batrinchin, Senior Officer, Department of Science, Technology and Higher Education (1,3 April 2002).
3. Prof. Ts. Gelegjamts, Director, Department of Administration, Management and International Cooperation (16 April 2002, 3 November 2002).
4. D. Munkhjargal, former Director, Department of Strategic Planning and Coordination, (27 May, 12 December 2002).
5. Nergui, Senior Officer, Department of Primary and Secondary Education (20 December 2002).
6. Norjkhorloo, Director, Department of Primary and Secondary Education (includes pre-school education, 5 April 2002, 20 December 2002).
7. Purev-Ochir, Officer, the City Education Board, former MOSTEC official in charge of pre-school education (16 November, 9 December 2002).
8. O. Purevsuren, State Inspector, Education Quality Inspectorate (17 November 2002).

Local Education Administrators

9. Shurentsetseg, Officer, Ulaanbaatar City Education Board (4 April 2002).
10. Vanchigsuren, Education Studies Institute (19 March 2002)
11. Dulamjav, Methodologist, Bayanzurkh Duureg, Ulaanbaatar (10, 12 June 2002)

PARP

12. Namkhajantsan, former vice-Minister of Education, director of PARP, at present advisor to the President of Mongolia
13. S. Erdenechimeg, Program Coordinator for Education Sector, PARP (11 December 2002).

Educationalists

14. A. Ariun, Coordinator, Consortium of Higher Education Organizations (5 May 2002).
15. Prof. Badarch, D, President, Mongolian University of Science and Technology (December 2002).
16. Prof. Batjargal, former Chairman of the State Taxation Office, Vice-President, School of Economics (29 March 2002).
17. Prof. Battuya, Director, Pre-school Teacher Training College (September 2002).
18. Chimgee, Officer, Institute of Education Studies (27 September 2002)
19. Ganbileg, Director, School no. 29 (8 June 2002).
20. Itgel, Coordinator, Mathematical Association (20 November, 11 December 2002).
21. Prof. Jadambaa, Vice-Rector, State Pedagogical University, former director of the School of Education Studies, former Deputy Minister of Education (28 March 2002)
22. Dr. Lkhagvaa, Director, Mongenii secondary school (18 November 2002)
23. Dr. N. Naranchimeg, IAMD, lecturer in Education Management (6 June 2002).
24. Prof. S. Togmid, Rector, State Pedagogical University (18 December 2002).
25. Shurentsetseg, methodologist, City Education Board (4 April 2002).
26. Tungalag, Institute of Education Studies (March 2002).
27. Tserenkhlan, former children's worker (16 November 2002)
28. Tsogzolmaa, Director, Private Kindergarten, Byangol Duureg (4 June 2002).

Donors

29. Barry Hitchcock, Country Director and Resident Representative, ADB (5 April, 2002)
30. Batkishig, Project Officer, Save the Children Fund(UK)/Mongolia (March 12, 2002).
31. La Porta, Programme Director, Save the Children Fund (UK)/Mongolia (10 April, 2002).
32. Narantsatsralt, Project Officer, Open Society Institute (March 2002).

Appendix 9. Interviews and Focus Group Discussions

1. Discussions with primary and secondary school Math teachers at the training seminar organised by the Mongolian Mathematical Association, December 5, 2003.
2. Conference at the MPRP headquarters with T. Gandi, MP, Chairman of the Social Policy Standing Committee, SIH, for general public. Presentations about privatization of social sectors, discussions, comments and answers to questions (17 December 2002).
3. Questionnaire survey among 168 urban and rural secondary school teachers.
4. Questionnaire survey among 70 urban and rural education administrators, pre-school methodologists, teachers and parents (20 March 2002).
5. Focus-group interview with pre-school workers.
6. Focus-group interview with secondary school rural and urban principals (20 questionnaires) (2 April 2002).
7. Questionnaire survey among 42 primary and secondary math teachers (7 December 2002)
8. Interviews with 22 pre-school teachers from Dornogovi *aimag* at the School of Education Studies (10 April 2002).
9. Attended a Conference of Secondary School Class Tutors (15 April 2002).
10. Interviews with directors of *aimag* education centres (22 April 2002).
11. Meeting with teachers and head of pre-school no. 157
12. Interview with the principal of Sant school (private)
13. Interview with the principal of Hobbi school (private)
14. Selected focus group interview and questionnaire survey among 38 students organised by the Central Library (29 October 2002).
15. Focus group meeting with students, Mongolian National University (2 November 2002).

Appendix 10. Questions for Semi-Structured Interviews with the MOSTEC Officials

a) Recruitment, pay and HRD policy

1. How many years have you been working in the Ministry?
2. How many years have you been working in your current position?
3. How did you join the government service? What was the procedure for your recruitment?
4. Is your salary sufficient to meet your basic needs?
5. What benefits do you enjoy as a government servant?
6. How many officers are in your department?
7. Is the current staffing level in the department adequate for fulfilling the above functions?
8. What do you think regarding their education and professional skills? How adequate are they?
9. What is the current recruitment policy and procedure in the MOSTEC? How transparent and fair are they?
10. Is there a staff development policy at the ministry?
11. Have you been enrolled in staff development programmes, formal training and other training events (including management training at IAMD)?
12. How relevant have they been for you and for your department?

b) Performance management and performance appraisal

13. What are the main functions and responsibilities of your department?
14. Have they been reviewed and renewed? If yes then when?
15. What are the main issues in your department with regard to improving performance? What are the main factors that positively or adversely affect the performance in your department?
16. What are the main constraints that you face in the course of fulfilling your responsibilities?
17. How is the performance of your department evaluated?
18. What is the procedure for performance appraisal and evaluation in the MOSTEC?
19. What are the criteria against which the performance of individual officers is appraised?

c) Rationalization and restructuring

20. Has your department been restructured since 1990 and rationalized? Had the staff been dismissed as part of restructuring measures?
21. If you answered yes, when did it happen and how many government employees were dismissed/recruited as a result?
22. Have they received compensations?
23. Do you have any idea what the dismissed people might be doing at present?
24. What were the gains/losses of staff rationalization measures for your department?
25. How did this measure influence the overall performance of your department? Has the work improved?
26. Does the funding you (your department) get sufficient for fulfilling your functions?

27. Have there been any occasions when the budget was not enough to carry out your duties? How did you proceed in this case?
28. The government plans to reduce the administration costs in the government by 15 percent. How realistic is this reduction for your department? Why?
29. How do you intend to reduce the administrative costs in your department? Will this involve further staff reductions?

d) Structural reforms and policy-making

30. What have been major structural reforms in the ministry since 1990 and what changes have they brought about in terms of organizational structure, personnel policies and management style? Please, specify in more detail.
31. What has been the result of the 1997 ministry rationalization and restructuring, when the ministries assumed a policy role rather than direct implementation of policies?
32. How did these measures influence the policy-making and monitoring capacity of the MOSTEC, its performance, effectiveness, pay and personnel levels?
33. How did it influence your department/your work along the above indicators?
34. What in your opinion was the impact of these reforms on the delivery of education services in Mongolia (quality, access)?
35. Do you encounter any constraints in introducing the principles such as customer oriented services, partnership and cooperation, mutual respect, trust, leadership, strategic vision, continual improvement, innovativeness, loyalty, dedication, quality, value for money, professionalism, organizational unity, monitoring and performance? What are these constraints, specifically?

e) Decentralization

36. How successful was, in your opinion, the process of decentralization of decision-making and granting greater autonomy to local organizations in the education sector?
37. How would you evaluate the pros and cons of this policy?
38. How did decentralization affect the Ministry?
39. How did decentralization affect your work?
40. How, in your opinion, did decentralization reforms impact upon the education services provision?
41. What is the internal decision-making process in the MOSTEC? (How decentralized is decision-making at MOSTEC)
42. What is the level of inter-departmental cooperation in the ministry? What is the relationship of your department to the ADB/ESDP office?
43. What is the relationship of the MOSTEC to its agencies?
44. How did creation of the agencies impact the performance at the MOSTEC?
45. Do you work with local administrations? What is the nature of this relationship?
46. How does the MOSTEC relate to local educational institutions, i.e. schools etc?
47. How do you integrate sectorial policy with the regional and local policies?
48. How, in your opinion, the introduction of the principles stipulated in the PSFMA will affect the relationships between the MOSTEC and local administrations?

f) PSFMA

49. Have you read the PSFMA?

50. What is your opinion regarding the introduction of output based planning, performance and budgeting, performance and output contracts with chief executives in the MOSTEC?
51. How well do you understand these principles?
52. How, in your opinion, the introduction of these principles will influence the MOSTEC/your department/your work/performance?
53. What are the services that have been contracted out by the MOSTEC?
54. What in your opinion effect the introduction of these principles will have on the delivery of education services in general?

Appendix 11. Lead Questions for Semi-Structured Interviews with Key Informants in the Education Sector (Educationalists)

1. What have been major reform directions in the education sector since the country's transition to market economy and democracy since 1990? What have been their objectives?
2. What have been major reforms and innovations in terms of the administration and management of the sector and institutions within it?
3. How the roles of major institutions in the education sector have changed as a result of these reforms?
4. How successful have they been in terms of achieving desired outcomes?
5. How appropriate have they been for the Mongolian education sector?
6. What have been major constraints in reform implementation?
7. How effective was the coordination of various donor projects in the education sector by the Government and MOSTEC?
8. What are the current priorities in the education sector? Which are the most important issues that need urgent attention?
9. What are the reasons, the causes that led to the emergence of these problems in the first place?
10. What have been major positive/changes that occurred in the sector as a result of decentralization of the sector at macro (sectorial) and micro levels (institutions)?
11. What have been the key changes in terms of decision-making, policy implementation, monitoring, human resources, personnel policy, wages, performance management, accountability and transparency?
12. How have the changes along the above dimensions impacted upon the quality of, access to and equality/equity of education?
13. How effective are the MOSTEC and other institutions in the sector in responding to the needs of various stakeholders in the education sector? Have their roles changed as a result of structural and management reforms in the sector?
14. What is the level of coordination and cooperation between the MOSTEC and other institutions in the sector? What is the level of cooperation between the government institutions and the private and NGO sector?
15. What are the factors that impede efficient functioning of these institutions?
16. Have there been any research on the impact of management reforms in the education sector?
17. What are the issues that worry you most in the education sector as a whole?

Appendix 12. Lead Questions for Focus Group Interviews with the Principals (Complete Secondary Schools)

1. How many years have you been in your position as a school principal?
2. Do you have enough teachers in your school?
3. Have you been involved in education management training programmes?
4. Has your school been part of the ESDP rationalization experiment?
5. If so, what measures were undertaken under the rationalization plan?
6. How many teaching and auxiliary staff has been made redundant?
7. What have been changed as a result of this measure?
8. What in your opinion were its benefits for the school as a whole?
9. How optimal is the school structure and personnel after the plan?
10. Are there any other innovations/reforms that have been tried out in the management practices and structure of the school besides school rationalization?
11. What is the role of the school governing body in school management?
12. What is the composition of the governing body in your school?
13. What is the relationship between your school and MOSTEC?
14. What is the relationship between your school and the local government?
15. How autonomous is the school?
16. What have been the benefits of the school autonomy?
17. Which aspects of your work as a school principal are most difficult to carry out?
18. What are the current teacher recruitment, training, promotion and remuneration policies?
19. Do you experience lack in qualified teachers?
20. Has your school participated in any projects? What kind?
21. How useful were these projects? In which sense?
22. What do you think of the reforms in secondary education in Mongolia? How successful have they been?
23. What are the issues that worry you most in terms of own school?
24. What are the issues that worry you most in terms of the major characteristics of education in the country as a whole? Why?

Appendix 13. Lead Questions for Focus Group Interviews with the Teachers

A. General

1. What have been major achievements in the Mongolian education sector over the last decade since the country's transition?
2. How did they translate or reflected upon your schools and your work as teachers?
3. What have been major drawbacks/constraints in your work?
4. How adequate is your work conditions, pay and other incentives? What other strategies do you use to increase your earnings?
5. Have you been exposed to any training programmes in management?

B. School autonomy

6. What do you think about the granting the schools autonomies over financial, personnel and managerial issues?
7. How did it affect the school/university in general and your teaching practice in particular?
8. How have you benefited?
9. Have there been any changes (negative/positive) in a way the schools were managed?
10. What is the representation of the school Governing Board?
11. How would you assess their role in the management of the school? Why?
12. Have you observed any changes in the achievement and behaviour of students as a result of the school/university autonomy and the introduction of Governing Boards?
13. What is the principal role of Governing Bodies in your school?
14. How effective are they in fulfilling their roles? Why?
15. What can be done to improve the school management?

C. School Rationalization

16. Have your schools participated in school rationalization and creating school clusters 'complex schools'?
17. How did it work? What have been the benefits of this measure in general and in terms of overall school performance, student achievement, teachers' performance and workload? Why?
18. What have been the problems with 'complex schools'? Why?
19. How appropriate was this measure for your schools?
20. Have there been any staff redundancies as a result of this?
21. What are, in a few words, the main challenges facing your schools?
22. What can you say about the general trends in the Mongolian education sector in terms of its quality, equality and access?
23. How satisfied are you with your job as teachers?

Appendix 14. Lead Questions for Semi-Structured Focus Group Discussions with University Students

The profile of students: 38 students, of which 10 from private universities, 12 – from rural areas, representing 16 universities in Ulaanbaatar.

1. What is it that you're striving to accomplish in your life?
2. What made you choose to go to the university?
3. Why have you chosen your particular universities?
4. Why have you decided to pursue your chosen course of study?
5. What can you say about your learning experience in the university?
6. How does it meet your expectations?
7. What aspects of your learning experience you like most (in terms of facilities it offers, the quality and relevance of the courses and the professionalism of lecturers etc)?
8. What could be improved in the your department?
9. How much were the tuition fees for 2001-2002 academic year?
10. How do you feel about tuition fees? Why?
11. How do you pay it?
12. What would you like to do when you graduate? Why?
13. What are the issues that you encounter most as a student which constrain your successful study?

Appendix 15. Questionnaire Survey Form for Secondary School Teachers

The survey is being carried out as part of the PhD research, which looks at the management reform in the education sector and attempts to shed light on its impact on the quality and access to education in Mongolia. Thank you very much for your participation to share your views about reforms and innovations in your school.

Questionnaire Survey Form No. _____

Code: _____

Sector: _____

Date: _____

Organization: _____

Location: _____

Number of participants: _____

Instructions: *Please indicate your response to each item by circling the appropriate number, adding your comments when you wish.*

A. Teacher Survey

1) Yours School:

- Rural 1
- Urban 2

2) Your qualification:

- upper- secondary 1
- diploma 2
- higher 3

3) Teaching experience:

- 4 years and less 1
- 5-10 years 2
- 10-20 years 3
- 21 years or more 4

B. About your work

4) Please, select 10 most common constraints in your work. You can add more categories.

8) In what sense the changes and reforms have been successful?

1. _____
2. _____
3. _____
4. _____

9) In what sense the changes and reforms have not been successful?

1. _____
2. _____
3. _____

D. Perceptions about Education Policy

10) How do you perceive trends in the Mongolian secondary education over the last decade as a result of current policies in terms of the following criteria? Please, tick the appropriate box (1 – improved, 2 – neutral or don't know, 3 – deteriorated, 4- no change)

	1	2	3	4
1.Enrolment				
2.Student achievement				
3.School facilities				
4.Student motivation				
5.Teachers qualification and skills				
6.Education management				
7.Democracy in education				
8.Teachers' social conditions				
9.School parent cooperation				
10.School and society linkage				

Comments _____

11) What have been major achievements and successes in Mongolian secondary education over the last decade in terms of policies and their implementation?

1. _____
2. _____
3. _____

12) What have been major shortfalls of these policies?

1. _____
2. _____
3. _____

13) Do you support privatization of schools?

Strongly support	Support	Neutral or don't know	Oppose	Strongly oppose
1	2	3	4	5

Please, add any further comments:

14) Please, add any general comments about the government policy and reforms in the education sector.

Appendix 16. Respondents Information

	Total	Rural	Urban	Teaching Experience				Qualification		
				Less than 4 years	5-10 years	10-20 years	More than 20 years	Upper secondary	Diploma	Higher
Teachers	210	109	101	13	40	67	78	5	8	197

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