INNOVATIONS FOR
SUCCESSFUL SOCIETIES

FROM CENTRAL PLANNING TO PERFORMANCE CONTRACTS: NEW PUBLIC MANAGEMENT IN MONGOLIA, 1996-2009

SYNOPSIS

In 1996, Mongolia's newly elected government, led by a group of market-oriented politicians, decided to reform civil service on the New Zealand New Public Management model, which required managers to sign contracts promising results in exchange for freedom to spend their budgets as they chose. The reforms were intended to modernize a civil service that, while legally changed since democratization in 1990, retained many of the characteristics, and staff, of the previous Soviet-modeled system. Reformers confronted a lack of robust accountability procedures, salary arrears and a lack of central control over local expenditures. The Democratic Coalition government, led by an economic team strongly committed to market-oriented reforms, settled on the contract-based New Public Management model as a way of preserving agency-level decentralization while making agencies' managers directly accountable to the national government. When enacted, the system met with difficulty at every stage: in specifying outputs for agencies and individuals, in measuring performance, and in rewarding good performance. By 2009, thirteen years after the reforms started, officials reported that the contracts remained largely a formality.

David Hausman wrote this case study on the basis of interviews conducted in Ulaanbaatar, Mongolia, in December 2009.

INTRODUCTION

Between 1996 and 2009, Mongolia attempted to reform its civil service on New Zealand's contract-based New Public Management model. At the time of Mongolia's first multiparty elections, in 1990, the government employed 800,000 people out of a population of 2.5 million. Public employment shrank abruptly, however, as rapid privatization led the post-Soviet shift to a market economy, and by 1995 only 200,000 people were on the payroll. In 1994, the State Great Hural (parliament), still controlled by the formerly communist Mongolian People's Revolutionary Party (MPRP), passed a law that began a shift away from the Soviet system of public employment, which considered political criteria for recruitment and promotion, to a system modeled on Japan and South Korea, where career civil servants were appointed based on the results of exams. That system had only barely begun to operate, however, when a group of market-oriented reformers took over parliament in 1996 and decided to remake Mongolia's civil service in the image of New Zealand's, holding managers responsible for outputs specified in annual performance contracts.

When the opposition Democratic Coalition took power for the first time in 1996, a new law establishing a career-based civil service had just begun to take effect; the Civil Service Council administered its first civil service exam for new recruits that year. Yet faced with a civil service that they described as unaccountable, particularly at the local level, Prime Minister M. Enkhsaikhan and his team decided that more radical reforms were necessary. Local governments routinely overspent their budgets and were two or three months behind on salary payments; the central government had no means of holding them accountable either for their spending or for their performance.

Mongolia began the reform process with several geographic and economic disadvantages. With fewer than three million inhabitants distributed over a land area three times the size of France, Mongolia is the most sparsely populated country on earth. Landlocked between Russia and China, Mongolia allied itself with Russia through most of the 20th century. Although Mongolia was not a member of the Soviet Union, it was perhaps the Soviet Union's closest satellite state. According to a report in late 2004 by the Denmark-based Demstar research project, Mongolia received nearly a third of its national income from Russia, and Soviet advisers made up 7.7% of the work force.[1] It was also the poorest Soviet satellite state. After the end of Soviet aid and the restructuring of the economy at the beginning of the 1990s, the economy collapsed. Gross domestic product fell by one quarter during the four years following the transition.[2] Despite these handicaps, Mongolia's economic transition was accompanied by successful democratization.

The then-communist MPRP, faced with street protests in the winter of 1990, agreed to hold elections quickly. After those elections, which the MPRP won, Mongolia adopted a semipresidential constitution and, as of 2009, had experienced three peaceful transfers of power in its State Great Hural.

The first of these transfers brought Enkhsaikhan's pro-market government to power in 1996. Continuing in the pattern of his government's other market-oriented reforms, Enkhsaikhan, together with his finance minister, Tsagaan Puntsag, and chief economic adviser, Batbold Tserenpuntsag, opted for the New Public Management model of civil service reform, which delegates budgetary authority to managers while holding them accountable through annual performance contracts for the outputs their organizations produce. The government planned first to centralize accounting authority—the ability to determine the budget for each of more than 5,000 distinct budget entities, many of which had received funds through local governments. By placing this authority in the Ministry of Finance, the plan bypassed local governments but promised a different form of decentralization. It would allow the managers of budget entities to decide how to spend their budgets in exchange for agreeing on so-called outputs—planned results, negotiated in advance with the relevant ministry and formalized in annual performance contracts.

Changes in government delayed the passage of the New Public Management law, but the reform program continued. Enkhsaikhan's government was forced to resign in 1998 when members of the parliament, in a surprise move, changed a law that had prohibited them from serving as ministers and took over the positions held by appointees. While the reform law was stalled in parliament, a project team financed by the Asian Development Bank piloted the reforms in five agencies. In 2002, parliament, now overwhelmingly controlled by the MPRP, passed the Public Sector Management and Finance Law. As implemented, the reform program centralized budgetary authority and raised civil service salaries but did not in fact provide autonomy to budget managers or effectively hold them accountable for results. For this reason, the Asian Development Bank, in a 2008 evaluation of its loan for the reforms, rated the program "less effective," "less efficient" and "less likely" to be sustainable.[3]

THE CHALLENGE

When the Democratic Coalition won a parliamentary majority for the first time in 1996, Prime Minister Enkhsaikhan and his team found themselves in charge of an unreliably paid public service that operated without effective central oversight.

There are few data on these accountability problems. The state of the civil service in the mid-1990s, in flux during the dismantling of the planned economy, remained largely undocumented. Batbold, Enkhsaikhan's chief economic adviser, said he would have liked to make an assessment of the current state of the civil service in 1996, but didn't find the time. "We knew quite well the deficiencies of the fiscal regime," he said, but not the details of the civil service problems that contributed to those deficiencies. "We were interested in making changes, not in how things were now."

Participants' accounts and the few available data provide a basic picture of the state of the Mongolian civil service in the mid-1990s. Many civil servants had entered the service in the Soviet era. Although the Civil Service Council began holding competitive recruitment exams in 1996, Enkhsaikhan said, the vast majority of civil servants remained loyal to the MPRP. Before the transition, the government had expressly included political criteria in its recruitment process, favoring Communist Party members.

The central government lacked oversight mechanisms through which to hold these civil servants accountable. Batbold and others traced the principal motivation for reform to this lack of accountability for local governments and individual budget entities, which, he said, did not have the capacity to function efficiently without robust central oversight. The reforms of the early 1990s had not provided for budget oversight. "They had decentralized without accountability," Batbold said. "It should be a very centralized government because of the small size."

According to a 2002 World Bank review, local governments disbursed nearly 40% of the central government's total spending in 1996, channeling funding to budget entities such as schools and hospitals.[4] After the central government released funds to local governments, and local governments released those funds to individual agencies, the central authorities could not follow up; each agency kept its money in one or more private accounts. Local government arrears built up as a result. In 1999, after the fiscal situation had improved but before the reforms were implemented, local government arrears still amounted to more than 1% of GDP; figures on arrears in earlier years were not available.[5]

The decentralized system, according to its critics, had allowed public-sector organizations to serve their own interests rather than those of the public. The 2001 Report of the Auditor General of Mongolia reported misappropriations and budget overruns, according to the World Bank.[6] Barry Reid, an adviser from New Zealand at the early stages of the New Public Management reforms (1997–1999), said government agencies often failed to fulfill their core functions. "A legacy of the Soviet system was that agencies had broad responsibilities," Reid said. "They also had very large numbers of staff. Schools couldn't afford textbooks, heating, teachers, but had many ancillary staff: drivers, administrators, etc."

Unreliable pay was one visible result of insufficient accountability. G. Tserenkhand, a member of the project team that implemented the New Public Management reforms, said that because of insufficient revenue and budget shortfalls, civil service salaries were usually paid two or three months late. The severity of the problem varied from agency to agency, as the government had no effective way to oversee the disbursal of funds. Because local governments were responsible for nearly 40% of all government spending, the need for fiscal control was urgent.

Funding was also unreliable. "There was always a long queue at the Ministry of Finance, as budgets were invariably overoptimistic," Reid said. "This led to cash rationing. Agency heads and project proponents would come to seek release of cash for their operations and projects."

All of these problems pointed to a lack of capacity. Mongolia had never experienced a market economy or democratic institutions, and had been relatively isolated from non-Soviet foreign influence. Without a history of non-Soviet institutions, officials had few models for their efforts.

FRAMING A RESPONSE

After its surprise victory in the 1996 elections, the Democratic Coalition set out to complete Mongolia's transition to a market economy. The government's first priority, before civil service reform, was the completion of the privatization program begun by the MPRP government in the early 1990s. Bathuyag Jamaldorj, one of Enkhsaikhan's chief economic advisers along with Batbold, said that the MPRP government had pulled back from making necessary reforms after the economic pain of the early 1990s. "There were pending reforms," he said. "The big privatization of state-owned enterprises had been stalled."

The new government acted quickly. "It was an enthusiastic time," Enkhsaikhan said. Batbold described the period after the coalition's unexpected victory as "an exceptional political window." In quick succession, the government auctioned off large enterprises, removed remaining price controls, abolished all customs duties, and restructured the banking sector. Enkhsaikhan and his staff then began to consider the reform of the public service, which they considered a Soviet-era anachronism. The New Public Management model, which had received international attention during its implementation in New Zealand in the early 1990s, looked like an efficient, if radical, solution. "Everybody thought we were crazy, but we chose the New Zealand system," Batbold said. "We liked that it emulated market incentives." Bathuyag gave a similar account. "The government I was advising had a very aggressive private-sector policy," he said. "It was a very liberal idea, to make government like a business." Bathuyag added, partly in jest, that New Zealand and Mongolia were similar in some ways: Both were small countries with many sheep.

The New Public Management model, implemented most fully in New Zealand and parts of Australia, aimed to restructure government on the model of private enterprise. The model's central civil service reform innovations were the introduction of performance contracts and output-based budgeting. In performance contracts, modeled on private contracts and signed at regular intervals, civil servants agreed to deliver a set of results, or outputs. Outputs were what agencies produced—in the case of a school, educational achievement of students; in the case of a motor-vehicle bureau, license plates and drivers' licenses. In traditional budgeting, organizations were allocated funding for activities or inputs such as hours worked, rent paid and equipment bought.

Through performance contracts at every level of the system, managers received budgetary autonomy in exchange for accountability. In other words, managers could spend their budgets as they chose but were held responsible for the results they delivered, according to the terms of their performance contracts. Rather than mandating inputs, ministries contracted with managers for outputs.

The success of the New Public Management model's civil service reforms depended on two difficult processes: the accurate specification of outputs, and the evaluation of managers' and employees' delivery of those outputs. Distinguishing between inputs and outputs could be tricky. For example, an employee might produce an internal report and view it as output, only to find that it would be considered an input for the organization. Evaluation of employees' performance and organizational outputs posed difficulties as well, because employees' contributions, even if they were outputs, might not be easily measurable.

The NPM model was not an obvious choice for Mongolia. Commentators on the New Zealand model for developed countries had often warned developing countries not to try it. For example, Allan Schick warned in a 1998 article for the World Bank that developing countries would likely not benefit from similar reforms because they were likely to lack robust traditions of formal contracts or good mechanisms for enforcing them.[7]

"Even good government systems are not good. Usually they are based on legalistic safeguards against abuse."

- Ts. Batbold, chief economic adviser to the prime minister, 1996-1998

Batbold, who became the government's principal advocate for the reforms, said he considered several models before settling on New Zealand's. "Even good government systems are not good," he said. "Usually they are based on legalistic safeguards against abuse." Batbold favored the New Zealand model for its ability to hold agencies, local governments, and individual civil servants accountable via a chain of performance contracts.

The New Zealand model combined the market principles central to the Democratic Coalition platform with a means of centralizing budget authority. "We needed a very top-down system that allowed the private sector to take over where necessary," Batbold said. "We looked around and decided even the systems in most Western countries were too large and expensive. We needed to do it all with not much capacity. The concept had to be stronger so that with the limited capacity Mongolia has it should work." Batbold said he liked the New Zealand system's ability to impose budget discipline while devolving authority to individual agencies and local governments.

The Mongolian NPM reforms would be paired with a Treasury Single Account system at the central bank, consolidating the 5,000 local government and agency accounts, held at that time in various private banks. This would enable the Ministry of Finance to monitor its resources daily and to prevent agency overspending. Before the Treasury Single Account system, the government released funds and was unable to monitor them until agencies reported on their spending; the Ministry of Finance therefore could only estimate, between budgets, how much cash it had on hand. The Treasury Single Account would solve this problem by holding all accounts under the umbrella of the Ministry of Finance, preventing agencies and local governments from accumulating arrears, and allowing the central government to keep track of its funds. This system, while conceptually separable from the contractualism of NPM, became part of the NPM project in Mongolia and was eventually implemented at the same time as the New Zealand system of output-based performance contracts.

Batbold enlisted the aid of the Asian Development Bank to build a technical team. "We just recruited whoever was coming from

Western graduate schools," Batbold said. "Essentially we tried to capture the best capacity by bribing them with international pay." With the ADB paying the salaries, Batbold hired a project team of Mongolians with master's degrees from abroad; he said the team members earned about three times as much as he did. The team's challenge, after adapting New Zealand's public management law for Mongolia, was to help convince politicians to pass the law while piloting it in a few agencies.

GETTING DOWN TO WORK

The proposed law was introduced in the parliament in late 1997, and Enkhsaikhan's government set out to win over members of parliament while defusing the opposition of *aimag* (province) and *soum* (district) leaders. Although the new law would decentralize budget authority to individual agencies, it would dramatically reduce the power of local governments. The ministries, rather than local governments, would distribute funds directly to individual agencies. (This change did in fact occur. In 1996, local governments disbursed nearly 40% of the government's expenditures; in 2004, they disbursed 8%.)[8]

Enkhsaikhan's government encountered political resistance to the planned reforms both within the Democratic Coalition and from the MPRP. In order to gain support in parliament, the government enlisted funding from the United States Agency for International Development (USAID) and the Asian Development Bank for a retreat and study tours to Australia and New Zealand. Batbold first presented the idea to the cabinet and party leaders at a three-day retreat financed by USAID in late summer 1996. He invited Ian Ball, a former central financial controller of the New Zealand Treasury, to make a presentation on New Public Management. "The workshop with Ian Ball was really the eye-opener," Batbold said. "I immediately insisted that Ian Ball become our adviser and arranged ADB funding." The ADB did in fact hire Ball's company, Public Sector Performance, to consult on Mongolia's reforms.

After the initial workshop, Batbold coordinated a study trip for political leaders. "We took all party leaders, all important politicians, on a tour to Australia and New Zealand. It included all the opposition, including Mr. Enkhbayar," he said, referring to Enkhbayar Nambaryn, the MPRP figure who later became prime minister and saw the law through parliament. This initial trip was followed by others, and members of parliament sometimes competed for places, which often went to those who opposed the law. "I was thinking at the time, people were criticizing a lot to get the trip," Bathuyag said.

At the same time, Enkhsaikhan made an effort to gain the goodwill of local leaders. He invited all *aimag* and *soum* governors to the capital for a conference. It was the first time in Mongolian history that all local leaders had gathered in the capital, Enkhsaikhan said. "Emotionally they were very supportive of the reforms," he said. "Many had not seen the capital." Enkhsaikhan gave each a coveted style of Russian wristwatch. "Even today when I meet them, they show the watches," Enkhsaikhan said.

These efforts at building support did not bear fruit during Enkhsaikhan's time in office. After his government was forced to resign in April 1998, a volatile political period followed, with four separate governments in 1998 alone. The political volatility eroded support for the Democratic Coalition, and the MPRP won 71 of 76 seats in parliament in the 2000 elections.

When the law finally passed in 2002, the MPRP was in a much stronger position than the Democratic Coalition had been. The Enkhsaikhan government's persuasive efforts, especially the study tours, may nonetheless have played a role in the eventual passage of the Public Sector Financial Management Law in 2002. Prime Minister Enkhbayar, who had gone on one of the early tours, used his overwhelming control of parliament to push through the legislation.

Between the introduction of the bill in parliament in 1997 and its passage in 2002, the New Public Management technical team, funded by the Asian Development Bank, implemented the reforms in five agencies: the tax office, the customs office, the civil service council, the audit office and the statistics office. The tax and customs agencies were chosen because they generated revenue. The civil service council and audit office were chosen because they would oversee the new performance contracts and accounting system, respectively. The statistics office volunteered for the pilot project.

The team, based at first in the Ministry of Finance and then, from 1999, in the Cabinet Secretariat, divided responsibilities for the piloting among its seven members, with some concentrating on output specification, others on performance contracts, and still others on output pricing and budgeting. Team members had in common a graduate education from an English-speaking foreign university, usually in an economics or management-related field. Although many had run across New Public Management concepts in the course of their studies, most team members had little or no practical experience with civil service reform.

The work moved forward in steps. The team trained agency counterparts to identify outputs, provide estimated costs for those outputs, develop strategic business plans and complete performance agreements. "The first challenge for our team was the notion of an output," said Erdemchimeg Sumiya, who joined the project team in 1998 and stayed throughout the piloting process. She said language caused part of the confusion: The Mongolian word for "output" is the same as for "product." Output specification was "a long iterative process," Erdemchimeg said. "People wanted to include everything they did. People were disappointed when what they did wasn't an output—as in administrative units, for example."

The project team offered a series of training sessions for agency counterparts, and also worked directly with them during each stage of the process. With the help of the project team, each pilot agency converted its input-based budget into output-based terms in time for the 2000 budget review. The output specification process also served as a functional review, identifying redundant functions.

OVERCOMING OBSTACLES

The process was easier in some agencies than in others. G. Tserenkhand, who came to the team from the state-affiliated Institute of Market Research, reported that output specification was relatively straightforward in the tax and customs agencies. They could at least measure the revenue they produced.

The pilot reform process required intensive engagement with agency counterparts. This implied a long and gradual introduction of the reforms across the rest of the public service; the project team had a transitional plan for implementing the reforms over a period of several years.

The government decided, however, to make the new law effective immediately. The project team rushed to provide the necessary training. In 2002 and 2003, pairs of team members visited each of Mongolia's 20 ministries, 13 ministry-level agencies, and 21 *aimags*. The leaders of budget entities from each *soum* came to their respective *aimag* centers to be trained. Project team members also trained trainers, whom they selected mostly from lecturers in relevant university disciplines, and published handbooks on the key features of New Public Management. Because of the time pressure, Erdemchimeg described these implementation efforts as "sink or swim" measures, and she said that it was "physically not possible" to provide all the necessary training. B. Nyamaa, the head of Expenditure Division at the Ministry of

Finance, concurred. "Ministries and local governments were not prepared," he said. "There was a big mess in the first year."

As the project team trained agencies for output-based budgeting and performance contracting, the Civil Service Council developed regulations for performance appraisals to accompany the performance contracts. Beginning in 2002, supervisors were required to complete quarterly performance appraisals for their employees. After protests over the amount of paperwork, the council began in 2007 to require only annual evaluations, and exempted lower-level employees from some of the criteria.

While the project team struggled to train thousands of agency managers on output-based budgeting and performance contracts, the Ministry of Finance implemented the Treasury Single Account system with far less difficulty. The Treasury Single Account, while paired with the performance-contracting reforms, had not been a major part of the pilot project. Its introduction, which occurred with the assistance of the World Bank and International Monetary Fund, went smoothly: The finance ministry and central bank coordinated with private banks to close the accounts of all budget entities and transfer their balances to new accounts held at the central bank. When these accounts were centralized, agency managers did not, as originally planned, receive budgetary autonomy. Instead, the government effectively centralized budgetary authority in the Ministry of Finance.

ASSESSING RESULTS

As of December 2009, Mongolia's reform program had achieved many of its formal goals. Since 2002, the separate bank accounts held by the 5,000 budget entities had been held at the central bank and overseen by the Ministry of Finance. Local entities were connected electronically to the Treasury and, as of December 2009, updated their accounts daily. The Ministry of Finance knew how much cash it had each day. Salaries were paid on time. Beginning in 2003, all general managers and managers filled out performance contracts each year, and listed their outputs. They provided estimated costs for the outputs and were, at least formally, held accountable for delivering them.

A consistent refrain from interviewees, however, was that while the Treasury Single Account system had improved budgetary discipline, the promised fiscal autonomy for managers never materialized. Bathuyag, the economic adviser to Enkhsaikhan, said "the initial intention and outcome were completely different." Nyamaa, the head of the finance ministry's expenditure division, supported Bathuyag's impression, saying that managers never gained fiscal autonomy in practice. "We've maintained line-item-based control," he said. "There's always been line-item-based control." Members of the New Public Management project team said they were disappointed that managers had not in fact gained budgetary autonomy. Munkhbat Chuluun, the last leader of the team (2003-2005), said he complained about the lack of autonomy to then-Finance Minister Ch. Ulaan, who had approved the implementation plan for the PSFML: "At the end of the project I said to Mr. Ulaan, 'You approved the plan; why haven't you given budget authority to the state secretaries of ministries?' He said, 'If the government gives them the money, they'll just employ relatives; they cannot manage the state budget.'" Ulaan declined a request for an interview. Without fiscal autonomy, the Treasury Single Account system resulted in the simple centralization of budget authority, generating mixed reviews. Budget discipline improved—salary arrears disappeared—but local governments resented their reduced role in distributing government funds.

Interviewees also said performance contracts had done little to improve performance or accountability. They offered several possible explanations for the contracts' disappointing results. First, several officials said that agencies lacked the capacity to define and assign a cost to outputs. Tsagaan, the former finance minister, said civil servants had not been sufficiently trained to distinguish between activities and outputs. "The name is output but inputs remained," he said. Anecdotal evidence supports his assertion. For example, one former finance ministry policy adviser, who asked not to be identified, described the difficulty of calculating the cost of policy advice, one of her principal outputs. The solution she found was to set the value of the output (advice) in terms of work hours spent—the input. Teachers' performance contracts offered a similar example: Teachers received points for the condition of class furniture and equipment and for making use of the class bulletin board—not for learning outcomes.[9] Munkhbat, the final leader of the NPM project team, summed up the problem, saying that managers and employees "just listed their activities, not their outputs" on performance contracts.

Performance contracts and output specification also placed more basic demands on civil servants. The procedures took up time and resources, and in many cases, output-based budgeting asked too much of ministries' budget departments. Some ministries continued to submit performance contracts, but the Ministry of Finance largely ignored them. "We simply don't have manpower for all the paperwork—no one reads it," Nyamaa said. "Budget entities and portfolio ministries still do performance contracts, but we don't receive those."

A third problem was evaluation of personnel based on outputs. The same challenges that confronted output specification surfaced again here. For example, when Mongolia's Academy of Management conducted research for other government agencies, the work was evaluated based on the number of projects rather than their quality. Throughout the civil service, quantity received undue weight in performance evaluations simply because it was measurable.

A lack of incentives for performance was a final problem. A few officials suggested in interviews that civil servants might take performance evaluations more seriously if their pay were contingent on them. However, the system established in 2002 did allow managers to give bonuses if their organizations ran a budget surplus. Anecdotal evidence suggests that bonuses, when available, did not make the performance appraisal process more effective. According to information provided by the Civil Service Council, in most years since the introduction of the evaluations (graded on an A, B, C, D, E scale), about a quarter of civil servants received A ratings, half received Bs, a quarter got Cs, and fewer than 1% received Ds or Es. In 2005, however, when there was a budget surplus, 39% received As and only 5.5% received Cs. The percentages returned to normal within two years. There are two possible interpretations of these data: that civil servants dramatically improved their work when bonuses were available, or that managers gave higher grades in order to distribute bonuses more equitably. Although there is little systematic evidence for one interpretation over the other, interviewees did not suggest that government service delivery improved substantially in 2005.

REFLECTIONS

In interviews about Mongolia's attempts to implement the New Public Management model, officials often returned to two questions: Could performance contracting and output-based budgeting have worked in Mongolia? Or did the country lack the preconditions for these reforms?

Those who initiated and implemented the reforms—most of the political establishment, as well as the project team—usually said the system could have worked. Munkhbat, the project team's final leader, said rushed implementation was at fault for the reform effort's shortcomings: "If the project had continued one more year, it could have been successful, but it depended on politicians." Tsagaan, the finance minister who helped get New Public Management on the political agenda in Mongolia, also regretted the short implementation period, and he singled out the lack of budgetary autonomy for managers as a central reason that performance contracting did not function as planned.

Others concluded that performance contracts and output budgeting distracted from civil servants' core duties. "Nowadays we understand that it was early for Mongolia to adopt the output-based budgeting approach which at that time was so new and fashionable," said Batjargal Bazarsuren, director-general of the finance ministry's fiscal-policy department. "So we decided to take a more holistic approach to our fiscal reform. Our ultimate or long-term goal is still output-based budgeting, which means we will take step-by-step reforms towards linking the money with policy." Still others thought the reforms were not so much misconceived as overambitious. "The reforms were too huge, embracing every corner of the civil service," Tserenkhand said.

Even the Asian Development Bank, the principal international funder of the reforms, eventually concluded that the plan did not match Mongolia's capacity. A 2008 ADB Performance Evaluation Report not only noted the short implementation period but also drew attention to more fundamental obstacles. The report's conclusion was unequivocal: "Mongolia lacks the capacity to successfully implement the PSMFL [Public Sector Management and Finance Law] at this time."

While Mongolia's reforms offer an example of successful imposition of budget discipline, they illustrate the pitfalls of formal performance management efforts. Where the reform program did achieve more accountability for agency managers, it was not as a result of output-based performance contracts but rather through improved traditional line-item budget oversight, in the form of the Treasury Single Account.

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